NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements And Independent Auditors' Report

March 31, 2013 and 2012

NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

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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, 2013 and 2012, 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 of 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.

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, 2013 and 2012, 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 3 through 19 and the Schedule of Funding Progress - Other Postemployment Benefits on page 72 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 Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 7, 2013, 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 7, 2013 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 7, 2013

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

March 31, 2013 and 2012

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, 2013. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

ESD continued its efforts to promote economic development throughout the State during fiscal 2013. Its mission is to promote a vigorous and growing economy, encourage the creation of new jobs and economic opportunities, increase revenues to the State and its municipalities, and achieve stable and diversified local economies. Through the use of loans, grants, tax credits and other forms of financial assistance ESD strives to enhance private business investment and growth to spur job creation and support prosperous communities across the State. To assist 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 Capital Fund Program ("Regional Council Capital Fund") was established as part of the State's 2011-2012 budget. Over the past two years, the Regional Council Capital Fund, which is administered by ESD, has made available $280.0 million of capital grant funding for the State's Regional Economic Development Council Initiative, which will 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 Regional Economic Development Council 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.

In addition, during fiscal 2013, through programs such as 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 business activity, the ESD Directors approved financial assistance for 201 companies and organizations. During this period, the $226.7 million ESD investment approved by the Board of Directors leveraged an additional

$1.58 billion in total investment, resulting in the retention of over 12,000 jobs and the creation of more than 2,400 jobs.

In an effort to further encourage economic growth, ESD's small business assistance was broadened in fiscal 2012 through the enactment of legislation that established the use of State Small Business Credit Initiative (SSBCI) funds for three economic development programs. The programs enable small businesses to leverage new capital and credit to help them create private sector jobs. The SSBCI is part of the federal Small Business Jobs Act of 2010, which supports state-level small business credit programs. The SSBCI funding is being used to support three separate small business development programs. The Innovate NY Fund, a seed-stage equity fund with $35 million in SSBCI funding and $10 million from Goldman Sachs, supports innovation, job creation and high growth entrepreneurship throughout the State. Seven competitively selected investment entities have received $40 million in commitments from Innovate NY in 2012 and they are currently investing in small businesses through this program. The Capital Access Program provides matching funds to loan loss reserve pools at financial institutions as an incentive to increase small business lending. Approximately $8 million is still available and allocated for this program. The New York State Surety Bond Assistance Program provides credit support, training and technical assistance to help small and minority - and women-owned businesses secure surety bonds. Approximately $10.0 million has been allocated to this program, with approximately $1.6 million already allocated to businesses, facilitating approximately $7 million in bonding capacity. New York's access to $55.4 million in SSBCI funds is expected to generate over $554.0 million in new private capital for small business.

In addition to assisting businesses, the Corporation continues to support major redevelopment efforts throughout the State. Some of the more significant financing actions relating to such development are highlighted below.

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 $41.6 million and $39.5 million for the fiscal years ended March 31, 2013 and 2012, respectively. In June 2010, the $38.7 million expansion was completed and the new structure has been well received by the convention industry and is marketable to a new customer base. Construction on the renovation started in July 2010 and includes, among other improvements, replacement of the exterior curtainwall, the roof and heating and cooling system. The roof will be the largest green roof on the eastern seaboard, a program that, when completed, will achieve LEED silver status. During fiscal 2013, the project achieved 90% completion and as a result of savings achieved through favorable bidding and careful management of a contingency, an additional $40 million of work was added to the project. This additional project scope includes a new food service venue, retail kiosks, site work and new interior flooring. The renovation is anticipated to be completed in November 2013.

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. 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 was refinanced in fiscal 2010 for an additional three years for \$91.8 million, including capitalized interest. In fiscal 2013 the loan was again refinanced for \$101.0 million for an additional two years. Interest will continue to be capitalized and ESD will make three principal payments of \$250,000 each over the two-year term. The 2013 financing agreement expires in 2015. In addition, \$130.0 million of seller's financed debt was obtained directly from the U.S. Postal Service to assist in completing the acquisition. At March 31, 2013, the remaining combined balance of this debt is \$156.0 million. The current project is a planned relocation of Amtrak's intercity rail operations from existing Pennsylvania Station to a redeveloped Farley building 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 will come 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 relocated Amtrak operations and need not await the completion of Phase I work. MSDC continues to work with the Federal Railroad Administration, Amtrak, the Port Authority and the Governor's office on a final funding plan for Phase 2.

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, 2013, more than \$ 2.939 billion of the total \$3.483 billion in funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

Erie Canal Harbor Development Corporation ("ECHDC") is guided by its mission to revitalize Western New York's waterfront and restore economic growth to Buffalo. ECHDC has achieved significant milestones in terms of waterfront development and its goal of working to accomplish public/private partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. Noteworthy accomplishments during fiscal 2013 include: extension of the Floating Dock resulting in the creation of an additional 400 linear feet of boat docking at canalside; funding over 450 events and activities at Canalside bringing over 500,000 visitors to Buffalo; opening of a new full-service bistro at the Naval and Military Museum; selecting an operator for a future Children's Museum on the Aud Block; and retaining a consultant to examine possible plans to light the grain elevators that line the Buffalo River, including performing a lighting test.

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. USAN's strategy consists of a three phase approach: Phase 1: initial actions to establish momentum (e.g., Conference Center Niagara Falls); Phase 2: to begin to attract significant private capital back to Niagara Falls (e.g. Ellicott Development's restoration/reuse of the United Office Building); and Phase 3: to leverage that momentum and new capital to drive several major projects and attractions. USAN is not working to achieve a single capital project; rather it is working on a series of projects that are intended to cumulatively improve the investment setting in downtown Niagara Falls. A key item on the USAN agenda is the further development of the Rainbow Centre Mall following the successful opening of the Niagara County Community College Culinary Institute in September, 2012.

Other examples of redevelopment include Queens West Development, Atlantic Yards, Midtown Plaza/PAETEC, Columbia University Educational Mixed-Use Development Land-Use Improvement and Civic Project, University of Rochester, Global Foundries/AMD, Fuller Road and Research Foundation of SUNY (Sematech).

During fiscal 2012, the assets, liabilities and records of the Small Business Technology Investment Fund ("SBTIF") were transferred to ESD as part of the effort to increase government efficiency. SBTIF provides early stage high-tech companies throughout the State with a potential source of venture capital to promote new job creation and economic growth. As of March 31, 2013, the equity of the fund was $13.2 million.

ESD's early mission when created in 1968, was to build affordable housing in New York State. Although the Corporation has built no new projects since the mid-1970's it still serviced mortgages on 44 housing projects until the agreement made as of May 30, 2013 assigned ESD's Housing Portfolio to the New York State Housing Finance Agency on June 5, 2013. For more detail see the subsequent event section on page 16.

New Accounting Pronouncements

For the year ended March 31, 2013, the Corporation adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements:

- GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.

- GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". This statement amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2013 and 2012:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2013	2012
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 211,055	181,119
Other current assets	2,468,173	2,539,544
Total current assets	2,679,228	2,720,663
Non-current assets:		
Investment securities - restricted	214,094	211,051
Loans and leases receivable	128,673	380,412
Due from State of New York	7,612,444	7,929,436
Due from Port Authority of New York and New Jersey	166,532	184,009
Due from New York Job Development Authority	26,171	26,082
Capital assets, net	1,546,252	1,400,442
Other assets	45,333	51,039
Total non-current assets	9,739,499	10,182,471
Total assets	12,418,727	12,903,134
Deferred outflow - deferred loss on derivatives	98,033	92,952
Liabilities		
Current liabilities	1,151,817	1,367,780
Non-current liabilities	9,304,179	9,516,740
Total liabilities	10,455,996	10,884,520
Deferred inflow - fair market value of derivatives	98,033	92,952
Minority interest	154,832	145,164
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	221,913	430,178
Total restricted	419,467	627,732
Invested in capital assets, net of related debt	1,388,432	1,245,718
Total net position	$ 1,807,899	1,873,450

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

	2013	2012
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 8,946	11,216
Housing companies	16,473	13,199
Nonresidential projects	7,742	7,969
Interest on revenue bonds	59,318	67,763
Hotel tax revenue	41,553	39,493
Reimbursed grants	180,490	79,919
Economic development grants	289,508	825,424
State appropriation for programs	14,064	24,075
Other revenue	55,030	54,294
Total operating revenue	673,124	1,123,352
Operating expenses:		
Interest related to:		
Corporate purpose bonds	5,734	7,707
Corporate loans	5,181	5,395
Interest on revenue bonds	59,318	67,763
Reimbursed grants	79,821	52,174
Economic development grants	295,831	835,991
General and administrative	109,562	58,839
Subsidiary program and administrative	52,181	51,907
Pollution remediation	(220)	(2,273)
Provision for recoveries on loans and leases receivable and investments in other assets	(8,700)	(1,765)
Depreciation	13,729	15,348
Total operating expenses	612,437	1,091,086
Minority interest	(9,668)	(11,027)
Operating income	51,019	21,239
Non-operating revenue	363,020	366,391
Non-operating expenses	(363,299)	(365,374)
Loss on transfer of housing portfolio (note 21)	(116,291)	-
Change in net position	(65,551)	22,256
Net position at beginning of year	1,873,450	1,837,340
Equity in Small Business Technology Investment Fund	-	13,854
Net position at end of year	$ 1,807,899	1,873,450

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $211.1 million and $181.1 million at March 31, 2013 and 2012, respectively. The increase is primarily due to the receipt of certain non-recurring payments related to various corporate and subsidiary programs, economic development projects, financing fees and efficiencies in operations.

Capitalization

As of March 31, 2013, UDC had $50.3 million, net of unamortized premium, in corporate purpose debt outstanding. No new corporate purpose debt was issued during fiscal year 2013 and 2012. In addition, it had $9.0 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, certain housing assistance projects and programs and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In March of fiscal 2013, UDC issued $843.2 million State Personal Income Tax Revenue Bonds (General Purpose); $572.4 million Series 2013A-1, $70.0 million Series 2013A-2 and $200.8 million Series 2013B (Federally Taxable). The Series 2013A-1 Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs; Art and Cultural Projects, Buffalo Regional Innovation Cluster, the Community Capital Assistance Program, the Community Enhancement Facilities Assistance Program, the Downstate Revitalization Fund, Downtown Buffalo initiative, the Economic Transformation Program, Economic and Community Development Projects, the Governors Island Project, the New York State Economic Development Program, the New York State Economic Development Assistance Program, the New York State Technology and Development Program, the Regional Capital Council Fund, the Regional Economic Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, NY-SUNY 2020, the Upstate Agricultural Economic Development Fund, Upstate City-by-City initiatives, the Capital Projects Fund and the Upstate Regional Blueprint Fund; capital projects with respect to facilities and other property owned and operated by various State departments, agencies and entities, including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs or grants under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2013B Bonds were issued to finance projects costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development projects costs, grants or loans under the following projects or programs: the New York State Economic

Capitalization, Continued

Development Program, the New York State Technology and Development Program, the SUNY College for Nanoscale and Science Engineering initiative, the Capital Projects Fund, the Upstate Regional Blueprint Fund, Upstate City-by-City initiatives, the Regional Council Capital Fund, and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2013 Bonds will be used to pay all or part of the cost of issuance of the Series 2013 Bonds. The Series 2013A-2 Bonds were issued to refund $47.2 million ESDC State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003C-1, State Facilities and Equipment Series 2002C-1 and Series 2004A-1 and $32.4 million New York State Housing Finance Agency State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003A and Series 2004A.

In December of fiscal 2012, UDC issued $702.4 million State Personal Income Tax Revenue Bonds (General Purpose), $545.5 million Series 2011A and $156.9 million Series 2011B (Federally Taxable). The Series 2011A Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs: Downstate Regional Projects, the Downstate Revitalization Fund, the Empire State Economic Development Fund, the Empire Opportunity Fund, Luther Forest infrastructure, the New York State Economic Development Program, the New York State High Technology and Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, Upstate City-by-City initiatives, the Capital Projects Fund and the Upstate Regional Blueprint Fund; capital projects and equipment purchases for State departments and agencies and other State entities; capital projects with respect to facilities and other property owned and operated by various agencies of the State, including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Office of Court Administration, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2011B Bonds were issued to finance the development and/or expansion of an international computer chip research and development center, project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development project costs, grants or loans under the following projects or programs: the New York State Economic Development Assistance Program, the New York State Economic Development Program, the New York State High Technology and Development Program, the Empire State Economic Development Fund, the Empire Opportunity Fund, the Capital Projects Fund, the Upstate Regional Blueprint Fund and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2011 Bonds were used to pay all or part of the cost of issuance of the Series 2011 Bonds.

Capitalization, Continued

In June of fiscal 2013, the Dormitory Authority of the State of New York ("DASNY")issued $1.8 billion in State Personal Income Tax Revenue Refunding Bonds (General Purpose) Series 2012A. Proceeds of $293.4 million from the DASNY issuance were used to refund a portion of UDC's State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003C-1 and 2005A-1 and State Personal Income Tax Revenue Bonds State Facilities and Equipment Series 2002A, 2002C-1, 2003B, 2004A-1 and 2005B.

UDC refunded revenue bonds during fiscal year 2012 using the proceeds and net original premium of the issuance of Service Contract Revenue Refunding Bonds, Series 2011A as follows: in September 2011, the proceeds of the $12.3 million Service Contract Revenue Refunding Bonds were utilized for the acquisition of the State Street Building (repayment and/or redemption of 2001 OGS debt) and the acquisition of the Hampton Plaza Facility (repayment and/or redemption of 1993 OGS debt).

In fiscal 2013, UDC redeemed $56.3 million of Corporate Purpose Subordinate Lien Bonds Series 1996 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds. For more detail see the subsequent event section on page 16.

In fiscal 2012, UDC redeemed $30.7 million of Corporate Purpose Senior Lien Bonds Series 2001 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

Also outstanding as of March 31, 2013 is $699.6 million in revenue bonds issued by the New York Convention Center Development Corporation in November 2005.

Interest Rate Transactions

During fiscal 2013, 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, 2013, 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.

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, 2013, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Capital Facility Revenue Bonds Series 1993A Refunding	N/A	AA-	N/A
Correctional Facility Service Contract - Refunding 2010B	N/A	AA-	AA-
Personal Income Tax Revenue Bonds Series 2003 A1	N/A	AAA	AA
Corporate Purpose Subordinate Lien 2004A	A2	A	A
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, 2013 was ($65.5) million compared with $22.3 million in the prior year. The decrease is primarily due to the transfer of ESD's Housing Portfolio to the New York State Housing Finance Agency ("HFA") offset by increases in funding for several subsidiaries, including HUD grant funding to LMDC and UDC and recoveries against loan loss reserves.

Revenue

Operating revenue in the 2013 fiscal year approximated $673.0 million compared with $1.123 billion in fiscal 2012.

Decreases in operating revenue primarily occurred in the following categories:

- Economic development grants funding decreased by approximately $535.9 million due to a decrease in activity within existing grant programs, including projects with AMD/Global Foundries, Aqueduct Video Lottery Gaming Facility and Research Foundation of SUNY (Sematech).
- Interest on revenue bonds decreased by approximately $8.4 million due to the repayment and refunding of certain bonds.
- State appropriation for programs decreased by approximately $10.0 million due to a decrease in economic development loan program activity.

Revenue, Continued

Increases in operating revenue primarily occurred in the following categories:

- Hotel tax revenue increased by approximately $2.1 million as a result of continued increased tourism to New York State.
- Interest and finance income from HUD subsidy, housing companies and nonresidential projects increased by approximately $0.8 million due to an increase in housing receipts.
- Reimbursed grants revenue increased by approximately $100.6 million due primarily to an increase of $27.6 million in HUD grant funding to LMDC and UDC as a result of increased program activity. In addition, grant funding to other subsidiaries increased by $73 million largely due to an adjustment of $39 million in the prior fiscal year related to the transfer of 42nd St. Development Project, Inc. ("42DP") to New York City and the receipt of grant funds for ECHDC, MSDC and USAN for their continued operations.
- Other revenues increased by approximately $0.8 million primarily due to the receipt of funding for a worldwide communications and marketing promotion program and an increase in bond fee income offset by losses due to housing prepayments and reductions in third party funds for ECHDC and One Bryant Park.

Non-operating revenue for fiscal year 2013 approximated $363.0 million compared to $366.3 million in fiscal 2012. The decrease of $3.3 million is due primarily to the repayment of certain bonds and the related decrease in debt service expected from the State.

Expenses

Operating expenses in the fiscal year ended March 31, 2013 approximated $612.4 million compared with $1.091 billion in fiscal 2012. The net decrease is primarily the result of changes in the following areas:

- Interest related to corporate purpose bonds decreased by approximately $2.0 million due to the early retirement of certain bonds.
- Interest on revenue bonds decreased by approximately $8.4 million due to the repayment and refunding of certain bonds.
- Provision for recoveries on loans and leases receivable and investment in other assets decreased by approximately $7.0 million due to the payoff of two project improvement program loans in the residential loan portfolio and the related adjustment to the associated reserves.
- Economic development grants decreased by approximately $540.2 million due to a decrease in activity within existing grant programs, including projects with AMD/Global Foundries, Aqueduct Video Lottery Gaming Facility and Research Foundation of SUNY (Sematech).

Expenses, Continued

- Depreciation decreased due to a $1.6 million adjustment in the prior fiscal year due primarily to the completion of a phase of the expansion project at the Javits Convention Center.
- Reimbursed grant expense increased by approximately $27.6 million primarily due to an increase in HUD funding to LMDC and UDC as a result of an increase in program activity.
- General and administrative expenses increased by approximately $50.7 million primarily due to an increase in expenses related to a worldwide communications and marketing promotion program, other postemployment benefits and personal services, including associated fringe benefits.
- Subsidiary program and administrative expenses increased by $0.2 million due to an increase in non-depreciable capital expenditures at certain subsidiaries.
- Pollution remediation expenses increased by approximately $2.1 million as result of an increase in the estimate of work needed at the Midtown Plaza project in Rochester.

Non-operating expenses approximated $363.3 million compared to $365.4 million in fiscal 2012. The decrease of $2.1 million is due primarily to the repayment of certain bonds and the related decrease in debt service. These costs are provided by the State and therefore, have no negative impact on the Corporation's financial statements.

Subsequent Event

- ESD developed and financed one hundred thirteen residential projects for low to moderate and middle-income families from 1968 through 1974 throughout New York State. The mortgage loans made to finance the projects were initially funded by the proceeds of bonds issued by UDC in the early 1970's. Each of the projects financed by the mortgages is subject to and governed by Article 2 of the State's Private Housing Finance Law or, colloquially, the "Mitchell-Lama Law". Since 1989, seventy-two of these projects have prepaid or otherwise satisfied their mortgage obligations. Forty-one of the remaining forty-four projects receive interest reduction subsidy payments ("IRP payments") under Section 236(b) of the National Housing Act of 1934, as amended, which is administered by the United States Department of Housing and Urban Development.

  The ESD Housing Portfolio currently includes: (i) ESD's first lien mortgage loan interests in forty-one Mitchell Lama projects and related IRP payments; (ii) ESD's subordinated mortgage interest in three additional projects whose first mortgages have been subordinated to new financing, but for which ESD continues to receive IRP payments through their respective contract expiration dates; and (iii) certain specific housing project related accounts. The mortgage loan interests, accounts, and IRP streams associated with a total of forty-four properties will be assigned by ESD to HFA on the Transfer Date.

Subsequent Event, Continued

As provided in the 2013-14 New York State Budget, and by agreement made as of May 30, 2013, ESD's Housing Portfolio was assigned to the New York State Housing Finance Agency ("HFA") on June 5, 2013 (the "Transfer Date") to consolidate and refinance the State's portfolio of subsidized mortgages for affordable housing. HFA made a one-time payment of approximately $45.4 million to ESD for the Housing Portfolio that will be used for operating expenses over the next two fiscal years. As a result of the transfer, the Corporation has recognized a loss of approximately $116.3 million during the fiscal year ended March 31, 2013, to reflect the difference between the book value of the assets being transferred and the amount the Corporation has received (see note 21).

The Housing Portfolio revenues are currently pledged to support the Corporation's 2004A Corporate Purpose Bonds. In compliance with the related Bond Resolution, ESD has obtained rating confirmations, deposited additional funds in the Bond Redemption Account and will otherwise comply with the Bond Resolution to permit the transfer of the pledged assets constituting the Housing Portfolio.

Anticipated Future Transactions

The following are anticipated to effect the Corporation subsequent to March 31, 2013:

- The Corporation purchased condominium units 7A - 12A and 14A of the 125 Maiden Lane condominium on November 9, 2006, for an aggregate purchase price of $62.5 million, with the intent of relocating the Corporate headquarters to these premises. After a careful review of the feasibility of such a move, ESD senior management during fiscal 2008, decided to begin the sale of the 125 Maiden Lane property.

  During fiscal 2013, the Corporation received $5.9 million for the sale of Unit 14A, the last remaining unit at 125 Maiden Lane.

  The Corporation entered into a lease agreement on July 30, 2007 with Time Equities to remain in the condominium units at 633 Third Avenue. As a result of the decision to remain in the current headquarters, the gain on the sale of $74.4 million is being deferred over the six year lease term for the premises, which included the fiscal year ended March 31, 2013.

  With the expiration of the lease agreement on June 30, 2013, the Corporation, together with the New York State Office of General Services, entered into lease negotiations with the landlord, 633 Third TEI Equities LLC. Essential terms of the lease are as follows: (1) ten year lease with an option to renew for an additional five years; (2) annual base rent beginning at approximately $6.5 million, or $62.50 per square foot; (3) escalations for

Anticipated Future Transactions, Continued

operating expenses and real estate taxes beginning in the second year, using the first year as the base year; and (4) the landlord is providing an allowance of approximately $2.5 million for improvements to the premises, with unused funds to be credited for future repairs and improvements.

- The 42nd Street Development Land Use Improvement Project ("the Project") is a joint undertaking of ESD and the City of New York ("the City"). The City's representative in the Project is New York City Economic Development Corporation ("EDC"). For many years, ESD implemented the Project through its wholly-owned subsidiary, 42DP and 42DP held title to all Project properties. In April 2011, the last Project site was substantially completed. As a result, on September 14, 2012, pursuant to long-standing contractual agreements between ESD, 42DP, the City, and EDC, 42DP transferred: (i) legal title to all Project properties from 42DP to EDC; and (ii) the Project's administrative/financial oversight from ESD/42DP to City/EDC. Project tenants now pay Project revenues (predominately "Payments-In-Lieu-of-Property-Taxes") directly to City/EDC (with exception of New Amsterdam funds cited in the next sentence). ESD/42DP have only two remaining Project responsibilities (again, dictated by prior long-standing contractual commitment): (1) 42DP must approve any material change to the Project's "Design Use and Occupancy Guidelines" (DUO) which control development in place of NYC zoning which the Project has overridden; and (2) 42DP and the City are jointly (50-50) responsible for certain capital replacement/repair items at Disney's New Amsterdam Theater, and to fund such obligation 42DP and the City each receive 50% of such Theater's Percentage Rent. ESD holds such Percentage Rent receipts in an account dedicated to fund this obligation.

- ESD worked closely with New York State Homes and Community Renewal (HCR) and the Governor's Office to formulate grant and low-interest loan programs for business 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 a maximum of $50,000 to $100,000 to help businesses with replacement of inventory, machinery and equipment, repair of real estate, and provision of needed working capital. Higher grant amounts will be offered 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 1% to 2% interest rate and seven-year maximum term will be provided to businesses that have a need beyond the grant programs.

  HCR will be the direct contract entity with the United States Department of Housing and Urban Development ("HUD"), which will make just over $1.7 billion in Community Development Block Grant Disaster Recovery (CDBG-DR) funds available for disaster relief to the State of New York. New York State estimates that over time it will allocate

Anticipated Future Transactions, Continued

approximately $415 million from its first CDBG-DR allocation to small business assistance programs. In addition to the above-referenced grant and loan programs, the CDBG-DR funds will also cover the cost of implementing a program that will offer free mentorship to impacted businesses, as well as marketing support for impacted areas in New York State that are reliant on seasonal tourism.

ESD is entering into an inter-agency agreement with HCR to administer the mentorship and tourism marketing programs, in addition to a "program marketing" campaign that will promote the availability of grants and loans for impacted businesses in the areas affected by Sandy, Irene and Lee. The $40.5 million in total contracted services is comprised of:

a. $3 million for ESD to manage the build out of the small business mentorship and consulting network. This network will build an online portal to match mentors and business coaches with businesses, facilitated through the New York State Small Business Development Center Network. ESD will also manage the recruitment of large numbers of consultants/business coaches and provide overall program oversight.
b. $30 million for ESD to contract with and 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. The key components of the Tourism Campaign will be TV advertising, digital & mobile, social media, print, and radio, with a focus on the summer tourist season (i.e., Memorial Day to Labor Day of 2013).
c. $7.5 million for ESD to contract with and oversee the work of an advertising agency to undertake an industry-wide marketing campaign to launch and promote the State of New York Small Business Storm Recovery Program

In addition to contracting with HCR for the above three services, ESD will also play a significant advisory role in the implementation of the small business grant and loan programs, working closely with HCR and the program intermediaries (NYS Small Business Development Center for packaging and New York Business Development Center for final review and processing of applications).

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 and Administrative 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, 2013 and 2012

		2013	2012
		(In thousands)	
Assets			
Current assets:			
Cash and equivalents	$	34,834	25,428
Temporary investments		176,221	155,691
		211,055	181,119
Cash and investment securities restricted or designated for:			
Corporate purpose bonds		41,040	46,758
Revenue bonds		984,155	835,694
Economic development		291,710	297,599
Subsidiary and other purposes		592,686	824,401
		1,909,591	2,004,452
Loans and leases receivable:			
Residential mortgage loans		45,388	18,900
Non-residential, principally leases		4,500	4,150
Economic development loans		1,216	1,346
		51,104	24,396
Due from State of New York		443,801	441,586
Due from Port Authority of New York and New Jersey		25,607	25,606
Other current assets		38,070	43,504
Total current assets		2,679,228	2,720,663
Investment securities restricted or designated for:			
Corporate purpose bonds		179,620	167,984
Revenue bonds		34,474	43,067
		214,094	211,051
Loans and leases receivable:			
Residential mortgage loans		-	252,254
Non-residential, principally leases		30,507	35,301
Economic development loans		98,166	92,857
		128,673	380,412
Due from State of New York		7,612,444	7,929,436
Due from Port Authority of New York and New Jersey		166,532	184,009
Due from New York Job Development Authority		26,171	26,082
Real property and office equipment, net		1,546,252	1,400,442
Other assets		45,333	51,039
Total non-current assets		9,739,499	10,182,471
Total assets		12,418,727	12,903,134
Deferred outflows of resources - deferred loss on derivative		98,033	92,952

(Continued)

See accompanying notes to consolidated financial statements.

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

		2013	2012
		(In thousands)	
Liabilities			
Current liabilities:			
Current portion of bonds, notes and mortgages payable:			
Corporate purpose bonds	$	4,495	11,900
Revenue bonds		685,375	686,470
Project revenue bonds - New York Convention Center Development Corporation		505	-
Other project revenue bonds		305	283
Other financing		59,548	152,225
		750,228	850,878
Accounts payable and accrued expenses		146,538	250,751
Grants payable		101,493	96,366
Interest payable		82,607	92,604
Other current liabilities		70,951	77,181
Total current liabilities		1,151,817	1,367,780
Non-current liabilities:			
Bonds, notes and mortgages payable:			
Corporate purpose bonds		45,845	104,384
Revenue bonds		8,280,311	8,456,261
Project revenue bonds - New York Convention Center Development Corporation		708,657	709,828
Other project revenue bonds		622	927
Other financing		102,492	605
		9,137,927	9,272,005
Deferred interest income - mortgage		(2)	3,000
Repayable to related governmental entities		3,530	3,611
Pollution remediation liability		16,603	22,423
Other liabilities		146,121	215,701
Total non-current liabilities		9,304,179	9,516,740
Total liabilities		10,455,996	10,884,520
Commitments and contingencies (note 19)			
Deferred inflow of resources - fair market value of derivatives		98,033	92,952
Minority interest		154,832	145,164
Net position:			
Restricted:			
Appropriations repayable under prescribed conditions		197,554	197,554
Other restricted for specific purposes		221,913	430,178
Total restricted		419,467	627,732
Invested in capital assets, net of related debt		1,388,432	1,245,718
Total net position	$	1,807,899	1,873,450

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, 2013 and 2012

	2013	2012
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 8,946	11,216
Housing companies	16,473	13,199
Nonresidential projects	7,742	7,969
Interest on revenue bonds	59,318	67,763
Hotel tax revenue	41,553	39,493
Reimbursed grants	180,490	79,919
Economic development grants	289,508	825,424
State appropriation for programs	14,064	24,075
Other revenue	55,030	54,294
Total operating revenue	673,124	1,123,352
Operating expenses:		
Interest related to:		
Corporate purpose bonds	5,734	7,707
Corporate loans	5,181	5,395
Interest on revenue bonds	59,318	67,763
Reimbursed grants	79,821	52,174
Economic development grants	295,831	835,991
General and administrative	109,562	58,839
Subsidiary program and administrative	52,181	51,907
Pollution remediation	(220)	(2,273)
Provision for recoveries on loans and leases receivable and investments in other assets	(8,700)	(1,765)
Depreciation	13,729	15,348
Total operating expenses	612,437	1,091,086
Minority interest	(9,668)	(11,027)
Operating income	51,019	21,239

(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

	2013	2012
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 362,288	365,082
Interest and finance income earned on investment of revenue bond proceeds	603	534
Other investment income, including change in fair value	129	775
Total non-operating revenue	363,020	366,391
Non-operating expenses - interest and other costs on revenue bonds	(363,299)	(365,374)
Non-operating income (loss)	(279)	1,017
Loss on transfer of housing portfolio (note 21)	(116,291)	-
Change in net position	(65,551)	22,256
Net position at beginning of year	1,873,450	1,837,340
Equity in Small Business Technology Investment Fund	-	13,854
Net position at end of year	$ 1,807,899	1,873,450

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2013 and 2012

	2013	2012
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 33,161	32,384
State appropriation received for interest on debt	59,318	67,763
Other operating receipts	52,028	57,294
Cash received from hotel tax revenue	41,091	39,243
Grants received	516,246	954,273
Interest payments on corporate purpose bonds	(6,404)	(8,259)
Interest payments on revenue bonds	(59,318)	(67,763)
Payments for general and administrative expenses	(185,242)	(133,934)
Grant payments	(459,525)	(768,323)
Payments for pollution remediation	(5,600)	14,995
Net cash provided by (used in) operating activities	(14,245)	187,673
Cash flows from non-capital financing activities:		
Retirement of corporate purpose bonds	(65,944)	(44,747)
Retirement of other project revenue bonds	(283)	(263)
Increase (decrease) in other liabilities	(75,810)	25,079
Net cash used in non-capital financing activities	(142,037)	(19,931)
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	843,190	702,275
Retirement of revenue bonds	(1,020,235)	(637,496)
Accrued interest payable on revenue bonds	(9,326)	(10,196)
Bond payments - New York Convention Center Development Corporation, net of issuing costs	(667)	(667)
Advances on behalf of State of New York for special projects	314,777	(635,753)
Proceeds from other financing	(1)	(3,994)
Net cash provided by (used in) capital financing activities	127,738	(585,831)
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	13,413,898	15,544,992
Purchase of investment securities	(13,342,610)	(14,937,638)
Investment income, net	(279)	1,017
Cash payments on behalf of the New York Job Development Authority	(89)	(186)

(Continued)

See accompanying notes to consolidated financial statements.

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

	2013	2012
	(In thousands)	
Cash flows from investing activities, continued:		
Payments received from projects financed by corporate revenue bonds	$ 113,919	20,867
Collections on economic development loans	3,440	(34,383)
Net activity on economic development projects	9,210	1
Investment in real property and office equipment	(159,539)	(160,391)
Equity in Small Business Technology Investment Fund	-	113
Net cash provided by investing activities	37,950	434,392
Net increase in cash and equivalents	9,406	16,303
Cash and equivalents at beginning of year	25,428	9,125
Cash and equivalents at end of year	$ 34,834	25,428
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	51,019	21,239
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	13,729	15,348
Minority interest	9,667	11,027
Provision for recoveries on loans and leases receivable and investments in other assets	(8,700)	(1,765)
Changes in:		
Due from Port Authority of New York and New Jersey	17,477	18,874
Grants receivable	-	16,332
Other current assets	5,434	(2,030)
Other assets	5,706	23,686
Accounts payable and accrued expenses	(104,213)	(8,063)
Grants payable	5,127	96,366
Interest payable	(669)	(552)
Deferred interest income - mortgage	(3,002)	3,000
Pollution remediation liability	(5,820)	(5,789)
Net cash provided by (used in) operating activities	$ (14,245)	187,673
Supplemental schedule of cash flow information - non-cash loss on transfer of housing portfolio	$ (116,291)	-

See accompanying notes to consolidated financial statements.

Note 1 - Corporate Background and Activities

The New York State Urban Development Corporation ("UDC" 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, UDC 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, UDC took control of CCDC.

UDC 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 UDC and the assets, liabilities and results of operations are consolidated with the operations of UDC for financial reporting purposes.

UDC is engaged in three principal activities:

(a) Economic Development

UDC's efforts in economic development projects are directed at several activities involving civic, commercial, high technology and industrial development within the State. UDC's mission is to promote a vigorous and growing economy, encourage the creation of new jobs and economic opportunities, increase revenues to the State and its municipalities, and achieve stable and diversified local economies. Through the use of loans, grants, tax credits and other forms of financial assistance ESD strives to enhance private business investment and growth to spur job creation and support prosperous communicates across the State. To assist 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). Currently, 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.

The economic development activities of UDC 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.

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development, Continued

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 $86.0 million and $57.0 million were received and disbursed during the years ended March 31, 2013 and 2012, respectively.

Additionally in 2001, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $0.3 million and $0.1 million was received and disbursed during the years ended March 31, 2013 and 2012, respectively. As of March 31, 2013, $0.2 million was returned to HUD from Grantee repayments.

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

(b) State Special Projects

UDC 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, UDC receives periodic State appropriations in amounts sufficient to pay the debt service on the bonds.

(c) Housing Projects

Residential developments for low, moderate and middle income persons and families, nonresidential, civic, commercial and industrial properties, and development of new communities were financed by corporate purpose bonds. Since the mid 1970's, UDC activity in this area has been limited to the monitoring and loan servicing of existing projects. As of June 5, 2013 the Housing Portfolio was transferred to New York State Housing Finance Agency (see note 21).

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

UDC is an enterprise fund that follows the economic resource measurement focus and the accrual basis of accounting. UDC complies with all applicable pronouncements of the Governmental Accounting Standards Board (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.

Note 2 - Summary of Significant Accounting Policies, Continued

(a) Basis of Accounting and Principles of Consolidation, Continued

The consolidated financial statements of UDC 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 Pronouncements

For the year ended March 31, 2013, the Corporation adopted the provisions of the following GASB Statements:

- GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements.
- GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position". This statement amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

(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.

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.

Note 2 - Summary of Significant Accounting Policies, Continued

(f) Loans and Leases Receivable

Residential mortgage loans and nonresidential loans, principally leases which are financed by corporate purpose bonds, are recorded at cost, net of amortization of principal. It is the intent of UDC to hold these loans for the foreseeable future or until maturity.

Subsidized residential mortgage loans are amortized based upon cash flow derived from Section 236 contracts (see note 5). Non-subsidized residential mortgage loans are amortized based upon cash flow derived from housing company operations.

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 UDC 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 residential mortgages, nonresidential mortgages and UDC advances to housing companies 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 UDC at the direction of the State Legislature. Most revenue bonds were issued under the Personal Income Tax Resolution for State Facilities and Equipment and Economic Development and Housing or currently General Purpose. UDC 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 2013 and 2012, UDC received from the State $1.091 billion and $1.072 billion, respectively.

Amounts received from the State were used to meet principal payments of $676.6 million and $643.7 million in fiscal 2013 and 2012, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2013 and 2012 UDC applied $15.1 million and $16.7 million, respectively, of revenue bonds investment earnings to meet principal and interest payments. Additionally, the Dormitory Authority of the State of New York issued $1.8 billion in State Personal Income Tax Revenue Refunding Bonds (General Purpose) Series 2012A, proceeds of which were used to refund $293.4 million of UDC's revenue bonds.

Note 2 - Summary of Significant Accounting Policies, Continued

(i) Bond Defeasances and Refundings

UDC 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 2013 and 2012, UDC redeemed $56.3 million and $30.7 million, respectively, of the Corporate Purpose Subordinate and Senior Lien Bond Series 2001 and 1996 with funds received primarily from repayment of the Corporation's housing mortgages which secure the corporate purpose bonds.

In-substance defeasances of revenue bond issues do not result in any net gain or loss to UDC since UDC is fully reimbursed by the State for all expenses related to revenue bonds as well as the net 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, 2013 and 2012, construction costs incurred in the amount of approximately $159.1 million and $159.5 million, respectively were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of $34.2 million, net of $1.1 million of interest income.

(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 the housing portfolio, economic development grants, 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

Note 2 - Summary of Significant Accounting Policies, Continued

(k) Revenue and Expense Classification, Continued

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. UDC 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 UDC's obligations for fiscal 2014.

(m) Grants

UDC administers certain reimbursement grant funds from Federal, State and City agencies. Reimbursement grants are awarded for a specifically defined project fund and are generally administered such that UDC is reimbursed for any qualified expenditures made in relation to such projects. UDC records reimbursement grants as revenue when the related program costs are incurred. Differences between the program costs incurred on specific projects and the related approved grants are reflected as a receivable or as a deferred liability 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. UDC is fully reimbursed by the State for all expenses related to revenue bonds. The fair value of the instruments is recorded either as a deferred outflow of resources or a deferred inflow of resources.

(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.

Note 2 - Summary of Significant Accounting Policies, Continued

(p) Subsequent Events

The Corporation has evaluated events after March 31, 2013, and through June 7, 2013, which is the date the consolidated financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these consolidated financial statements.

(q) Reclassifications

Reclassifications have been made to certain 2012 balances in order to conform them to the 2013 presentation.

Note 3 - Cash and Equivalents

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

At March 31, 2013, 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):

	Carrying amount	Bank balance
Insured (FDIC)	$ 1,798	1,889
Uninsured - collateral held by custodian in UDC's name	253,445	257,282
Deposits held in trust for the Corporation's benefit	2,439	2,439
Total cash and cash equivalents	$ 257,682	261,610

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;
- Collateralized investments, which are fully secured as to principal by U.S. Treasury securities and agencies of the U.S. Government, with financial institutions, which meet specified criteria;
- 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;

Note 4 - Fair Value of Financial Instruments, Continued

- Commercial paper issued by domestic banks, corporations and financial companies rated "A-1" or better by Standard & Poor's Corporation or "P-1" by Moody's Investors Service, Inc.;
- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in UDC'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, 2013 and 2012 consisted of the following (in thousands):

	2013		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,075,394	2,067,600	(7,794)
Restricted cash	232,306	232,306	-
Total	$ 2,307,700	2,299,906	(7,794)

	2012		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,067,310	2,060,340	(6,970)
Restricted cash	310,854	310,854	-
Total	$ 2,378,164	2,371,194	(6,970)

Note 4 - Fair Value of Financial Instruments, Continued

Restricted or designated investment securities held by UDC include cash and equivalents and investment securities amounting to $592.7 million and $824.4 million at March 31, 2013 and 2012, respectively. These amounts at March 31, 2013 and 2012 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2013	2012
Subsidiary/Programs/Purposes:		
42nd Street Development Project Corporation	$ 14,093	126,711
New York Empowerment Zone Corporation	17,893	20,562
Queens West Development Corporation	15,652	15,021
Harlem Community Development Corporation	4,694	4,812
Enterprise Community	837	883
USA Niagara Development Corporation	13,778	10,538
Lower Manhattan Development Corporation	1,399	2,942
Lower Manhattan Development Corporation 130 Liberty Escrow	1,962	10,414
New York Convention Center Development Corporation	341,515	426,635
Moynihan Station (James A. Farley Post Office Building)	18,540	22,519
ESD One Bryant Park	7,599	7,492
ESD 125 Maiden Lane	63,737	58,039
ESD Project Repair Program	14,828	13,372
ESD Erie Canal Harbor Development Corporation	24,593	19,897
ESD New York	3,066	3,065
UDC Housing Resyndication and Project Improvement	1,818	1,932
ESD OPEB Liability Account	19,530	19,513
ESD Brooklyn Arena Project, ESDC Atlantic Yard Project-Phase 1	1,351	2,130
ESDC Privatization Program	617	517
Columbia University Manhattan Campus	1,453	2,090
NYSUDC Housing Disbursement	3,473	2,898
ESD Columbia SAC	18,545	51,221
Empire State New Market Corp	1,299	858
Other purposes	414	340
Total	$ 592,686	824,401

Note 5 - Loans and Leases Receivable

Residential mortgage loans, nonresidential lease receivables, mortgage loans and real estate investments and economic development loans at March 31, 2013 and 2012 consist of the following (in thousands):

	2013		2012	
	Number	Balance	Number	Balance
Residential mortgage loans (a):				
HUD subsidized (Section 236)	41	$ 94,456	45	184,417
Non-subsidized projects	3	19,639	5	45,299
Retention Loan (Section 32 Advance)	7	21,953	7	24,953
Tenant Repair Loan	12	25,631	11	16,485
	63	161,679	68	271,154
Loss on transfer of housing portfolio		(116,291)		-
		45,388		271,154
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (b)	7	24,084	7	27,371
Commercial leases (c)	4	9,723	4	10,877
Real estate investments (d)	4	1,200	4	1,203
	15	35,007	15	39,451
Economic development loans (e)	104	99,382	106	94,203
Total	182	179,777	189	404,808
Less current portion		(51,104)		(24,396)
Non-current portion		$ 128,673		380,412

(a) Residential Mortgage Loans

Residential mortgage loans are secured by first liens on the properties and are usually payable in equal installments (principal and interest) over an original 40-year term. Remaining terms range from 1 to 20 years. The loans are without recourse against the borrower and the stated interest rate is between 7.5% and 8.5%. New York State Home and Community Renewal ("HCR") has supervisory jurisdiction over UDC's residential projects.

At March 31, 2013, 44 residential projects (subsidized and non-subsidized), remain from the original total of 113. Of the 44, 41 are subsidized by HUD under contracts pursuant to Section 236 of the National Housing Act which provides interest reduction subsidy payments in connection with mortgages. Interest reduction contracts provide 60% to 65% of the mortgage debt service and effectively reduce the mortgagors' responsibility to the payment of principal plus interest at 1%. HUD payments for the 41 and 45 Section 236 projects totaled $26.5 million and $29.1 million for the years ended March 31, 2013 and 2012, respectively. The

Note 5 - Loans and Leases Receivable, Continued

(a) Residential Mortgage Loans, Continued

other projects are not subsidized under the Section 236 program and pay principal plus interest at rates of 7.5% to 8.5%. As of June 5, 2013 the Housing Portfolio was transferred to HFA (see note 21).

Certain projects have required and are expected to require advances from UDC because of the failure of certain mortgagors to take such actions deemed by UDC to be necessary or appropriate to protect the mortgaged property. Such advances, amounting to $1.5 million and $1.1 million for the years ended March 31, 2013 and 2012, respectively, were expensed for financial reporting purposes, but have been added to the existing mortgage receivable balances for credit management purposes. In addition, there were no retention loan advances for the years ended March 31, 2013 and 2012, respectively.

The Tenant Repair and Improvement Loan Program was established to provide low cost loans to owners of eligible properties to eliminate health and safety issues, enhance living conditions and improve the fiscal health of the Mitchell-Lama housing projects in ESD's loan portfolio. A requirement of the program is that all approved repair and construction be completed within six months of the start of construction. There were loan advances in the amount of $11.5 million and $8.3 million for the years ended March 31, 2013 and 2012, respectively.

(b) Non-residential Lease Receivables

Non-residential lease receivables consist of 7 projects outstanding in both 2013 and 2012 which were owned by UDC and leased to others. UDC recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2013, the remaining lease terms ranged from 1 to 10 years. There are 6 leases with the City of New York ($22.7 million) and 1 is with a bank ($1.3 million). At March 31, 2013, minimum lease payments to be received within the next 5 fiscal years total $20.5 million.

(c) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments due to the Corporation pursuant to ground leases on 4 Roosevelt Island housing projects totaling 2,141 units which include 2 non-subsidized, 1 subsidized, and 1 cooperative. Although the UDC mortgages on the subsidized and cooperative housing projects totaling 1,380 units have been satisfied, these payments continue to be due and owing to the Corporation. The various ground lease terms range from 1 to 17 years. The receivable balance of $9.7 million is amortized at an average annual interest rate of 7.5%.

(d) Real Estate Investments

Real estate investments consist of approximately 524 acres of land (comprised of 4 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

(e) 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 21 years. The funds to make the loans came from State appropriations which are not repayable. The loans are net of allowance for possible losses of approximately $49.3 million and $50.0 million at March 31, 2013 and 2012, respectively.

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

UDC 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 UDC 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, 2013, annual minimum payments to be received in each of the next five years is approximately $25.9 million per year. The net present value of the receivable balance at March 31, 2013 and 2012 amounted to $185.8 million and $203.3 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 2013 and fiscal 2012, the Port Authority made no payments to MSDC. The receivable balance at March 31, 2013 and 2012 amounted to $6.3 million.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2013 and 2012 consists of the following (in thousands):

	March 31, 2012	Additions	Disposals	March 31, 2013
Land	$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,256,731	123,573	-	1,380,304
Moynihan Station	63,894	35,486	-	99,380
Furniture and equipment	23,532	480	-	24,012
	1,711,850	159,539	-	1,871,389
Less accumulated depreciation	(311,408)	(13,729)	-	(325,137)
Totals	$ 1,400,442	145,810	-	1,546,252

Note 7 - Real Property and Office Equipment, Continued

Real property and office equipment at March 31, 2012 and 2011 consists of the following (in thousands):

	2012			
	Balance at March 31, 2011	Additions	Disposals	Balance at March 31, 2012
Land	$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,110,178	147,415	(862)	1,256,731
Moynihan Station	51,540	12,354	-	63,894
Furniture and equipment	22,910	622	-	23,532
	1,552,321	160,391	(862)	1,711,850
Less accumulated depreciation	(296,922)	(15,348)	862	(311,408)
Totals	$ 1,255,399	145,043	-	1,400,442

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2013 and 2012 are as follows (in thousands):

	2011	Net increase (decrease)	2012	Net increase (decrease)	2013
New York Convention Center Development Corporation	$ 791,283	134,851	926,134	114,711	1,040,845
USA Niagara	18,901	(1,649)	17,252	221	17,473
James A. Farley Post Office Building and other UDC Property	295,141	12,679	307,820	8,536	316,356
Other Subsidiaries	4,853	672	5,525	105	5,630
Total	$ 1,110,178	146,553	1,256,731	123,573	1,380,304

Note 7 - Real Property and Office Equipment, Continued

(b) James A. Farley Post Office Building

On March 30, 2007, UDC 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):

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	
Total	$ 230,000	

UDC 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, UDC 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). 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, 2013 and 2012 amounted to $13.7 million and $15.3 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2013 and 2012 consist of the following (in thousands):

	2013	2012
Interest receivable	$ (363)	1,627
Unamortized bond finance costs	16,307	21,550
Receivable from municipalities, other authorities and others	7,457	7,506
Receivable from HUD - LMDC grant	29,190	25,066
Hotel tax receivable	10,273	9,811
Prepaid insurance	3,825	4,943
Other assets - 125 Maiden Lane	908	6,382
Other	15,806	17,658
	83,403	94,543
Less current portion	(38,070)	(43,504)
Non-current portion	$ 45,333	51,039

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" effective for its fiscal year beginning April 1, 2007.

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

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, 2013 and 2012 amounted to $5.1 million and $4.9 million, respectively, of which the Corporation paid $1.9 million and $2.1 million respectively. At March 31, 2013 and 2012, the liability for postemployment benefits other than pensions amounted to $21.4 million and $18.2 million, respectively.

The number of participants as of March 31, 2013 and 2012 was as follows:

	2013	2012
Active employees	258	255
Retired employees	181	190
Total	439	445

Funding Policy - For the years ended March 31, 2013 and 2012, 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, 2013 and 2012, the Corporation's annual OPEB cost amounted to $5.1 million and $4.9 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2013	2012
Actuarial accrued liability ("AAL"):		
Active employees	$ 25,964	24,645
Retired employees	30,993	29,419
Total	$ 56,957	54,064
Underfunded actuarial accrued liability ("UAAL")	$ 56,957	54,064
Normal cost at beginning of year	$ 2,608	2,484

Note 9 - Postemployment Benefits Other Than Pensions, Continued

Level Dollar Amortization	2013	2012
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	$ 2,478	2,352
Normal costs with interest to end of year	2,635	2,507
Annual required contribution ("ARC")	$ 5,113	4,859

Annual OPEB Cost Contribution		
Contribution for the year	$ 1,889	2,089
Contribution as a percentage of required contribution	37.0%	43.0%

Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 5,113	4,859
Contribution made on a pay-as-you-go basis	(1,889)	(2,089)
Increase in net OPEB obligation	3,224	2,770
Net OPEB obligation at beginning of year	18,152	15,382
Net OPEB obligation at end of year	$ 21,376	18,152

Actuarial methods and assumptions:

Funding interest rate	4.5%
2012/2013 trend rate (medical and drugs)	9%
2013/2014 trend rate (medical and drugs)	8%
Ultimate trend rate (medical and drugs)	5%
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, 2013	24 years

Note 10 - Corporate Purpose Bonds

As of March 31, 2013 and 2012, UDCs outstanding corporate purpose bonds were as follows (in thousands):

	Coupon rates (%)	Balance at March 31, 2012	Principal payment	Redeemed	Balance at March 31, 2013	Maturity date	Sinking Fund Annual Installment Requirements Ranging: From year	Amount	Through year	Amount	Final amount
1996 Subordinate Lien Bonds (a):											
Term	5.50	$ 27,580	(7,600)	(19,980)	-						
Term	5.50	24,895	-	(24,895)	-						
Term	5.60	11,460	-	(11,460)	-						
		63,935	(7,600)	(56,335)	-						
2004A Subordinate Lien Bonds (b):											
Serial	4.10 - 5.00	11,125	(4,300)	-	6,825	2014-2015	2014	4,495	2015	2,330	2,330
Term (c)	5.125	42,800	-	-	42,800	2022	2015	2,375	2022	6,685	3,385
		53,925	(4,300)	-	49,625						
Principal outstanding		117,860	(11,900)	(56,335)	49,625						
Unamortized bond discount		191			715						
Unamortized loss on current refundings		(1,767)			-						
Total		116,284			50,340						
Less current portion		(11,900)			(4,495)						
Total non-current liabilities		$ 104,384			45,845						

(a) Early redemption options at 100%.
(b) Early redemption options may commence in 2014 at 100%.
(c) Range shown represents 8 term bonds with 8 maturity dates.

Note 10 - Corporate Purpose Bonds, Continued

UDC issued 2001 Senior Lien Corporate Purpose Bonds in the amount of $54.2 million in December 2001. The proceeds of the 2001 bonds together with other available funds were applied towards a current refunding of its remaining Section 236 revenue series 1992 A bond.

The 2001 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.2 million. This difference, reported in the accompanying consolidated financial statements as a deduction from bonds payable, is being charged to operations through the year 2025. The Corporation completed the refunding to reduce its total debt service payments over the next 25 years by approximately $27.0 million and to obtain an economic gain of approximately $7.7 million.

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 $185.8 million and $203.3 million at March 31, 2013 and 2012, respectively.

In fiscal 2013, UDC redeemed $56.3 million of Corporate Purpose Subordinate Lien Bonds Series 1996 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

In fiscal 2012, UDC redeemed $30.7 million of Corporate Purpose Senior Lien Bonds Series 2001 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

In accordance with the respective bond resolutions, UDC maintains required debt service reserve funds equal to the maximum amount of principal maturing (including sinking fund payments) and interest becoming due in any succeeding calendar year. The bonds are further secured by collateral (see note 4).

Annual principal maturities and interest obligations for the next five years following March 31, 2013 are as follows (in thousands):

	Principal	Interest	Total
2014	$ 4,495	2,494	6,989
2015	4,705	2,290	6,995
2016	4,935	2,072	7,007
2017	5,195	1,819	7,014
2018	5,460	1,407	6,867
	$ 24,790	10,082	34,872

Aggregate principal maturities subsequent to 2018 are approximately $25.6 million.

Note 11 - Revenue Bonds

At March 31, 2013 and 2012, UDC's outstanding revenue bonds were as follows (in thousands):

	Balances		Coupon	Maturity
(a) Correctional Facilities	2013	2012	rates (%)	dates
Correctional Facilities Revenue Bonds				
1988 Series F	$ -	4,529	zero coupon	2013
1993A Refunding	13,080	25,485	5.50	2014
Correctional Capital Facilities				
1993A Capital Refunding	20,070	39,130	5.25	2014
Total Correctional Facilities Issues	33,150	69,144		
(b) Personal Income Tax Revenue Bonds (P.I.T.)				
State Facilities and Equipment				
2002 Series A	-	9,275	4.00 - 5.38	2016
2002 Series C-1	-	33,960	4.25 - 5.50	2019
2002 Series C-2 (Taxable)	-	970	5.15	2013
2003 Series B	-	22,070	5.00 - 5.25	2015
2004 Series A-1	25,165	237,560	3.63 - 5.25	2016
2004 Series A-2	300,485	300,485	3.63 - 5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2005 Series B	117,360	183,255	4.00 - 5.00	2035
2007 Series B	241,030	247,155	4.00 - 5.00	2037
2007 Series C	244,870	251,080	4.00 - 5.00	2037
2009 Series B-1	402,035	419,025	3.00 - 5.25	2038
2009 Series B-2	66,475	77,580	6.45	2018
Economic Development and Housing				
2003 Series A-1	5,210	10,220	4.00 - 5.00	2014
2003 Series A-2 (Taxable)	15,830	30,940	4.85	2014
2003 Series C-1	1,800	23,640	5.00	2023
2003 Series C-2 (Taxable)	-	19,850	4.97	2013
2004 Series B-1	4,240	4,240	5.00	2015
2004 Series B-2	1,875	2,760	3.50 - 5.00	2015
2004 Series B-3 (Taxable)	-	8,445	4.51	2013

(Continued)

Note 11 - Revenue Bonds, Continued

(b) Personal Income Tax Revenue Bonds (P.I.T.) Economic Development and Housing, Continued	Balances 2013	2012	Coupon rates (%)	Maturity dates
2005 Series A-1	$ 85,445	105,110	3.38 - 5.00	2026
2005 Series A-2 (Taxable)	24,195	31,560	4.65 - 4.73	2016
2007 Series A	24,415	27,510	3.75 - 5.00	2023
2008 Series A-1	361,745	384,575	3.50 - 5.00	2028
2008 Series A-2	18,880	22,195	4.36 - 4.86	2018
2009 Series A-1	259,850	281,520	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	87,770	99,615	5.64 - 6.50	2019
General Purpose				
2009 Series C	613,240	633,760	3.00 - 5.00	2023
2009 Series D (Taxable)	54,350	104,380	2.48	2014
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	351,950	351,950	2.00 - 5.00	2020
2010 Series B (Taxable)	144,525	237,055	2.03 - 2.63	2015
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	513,145	537,615	3.50 - 5.00	2041
2011 Series B (Taxable)	136,160	152,310	0.75 - 2.79	2021
2013 Series A-1	572,390	-	3.50 - 5.00	2043
2013 Series A-2	70,030	-	2.00 - 5.00	2026
2013 Series B (Taxable)	200,770	-	0.22 - 1.75	2019
Total Personal Income Tax Revenue Bonds	6,233,625	6,140,055		
(c) University Facilities				
Columbia University 1989 Series	28,954	32,435	zero coupon	2020
Cornell University 1989 Series	3,877	4,343	zero coupon	2020
RPI Project 1995 Series	-	4,025	5.50	2013
Clarkson University - Loan 1995 Series	5,815	6,480	5.50	2020
Syracuse University - Loan 1995 Series	9,285	11,310	5.50	2017
University Facilities Grants 1995 Series	10,270	11,405	5.50 - 5.88	2021
Total University Facilities Issues	58,201	69,998		
(d) State Office Facilities				
State Office Facilities 1995 Refunding Series	129,605	142,145	5.60 - 5.70	2021

(Continued)

Note 11 - Revenue Bonds, Continued

	Balances		Coupon	Maturity
(e) Other Projects	2013	2012	rates (%)	dates
Community Enhancement Facilities - Assistance Program 1998 Series	$ 6,810	6,574	zero coupon	2014
(f) Service Contract Refunding				
2005 Series A	140,640	164,145	3.60 - 5.00	2019
2005 Series B	23,475	26,240	4.00 - 5.00	2020
2007 Series A	235,110	254,650	4.00 - 5.25	2029
2008 Series A	200,000	200,000	Variable note	2030
2008 Series B	439,425	442,055	4.00 - 5.25	2030
2008 Series C	121,235	121,235	3.75 - 5.00	2030
2008 Series D	609,640	644,095	4.25 - 5.63	2028
2010 Series A	428,305	458,450	4.00 - 5.00	2022
2010 Series B	295,470	391,595	4.00 - 5.00	2017
2011 Series A	10,995	12,350	2.00 - 4.00	2021
Total Service Contract Refunding	2,504,295	2,714,815		
Total all issues	8,965,686	9,142,731		
Less current portion	(685,375)	(686,470)		
Total non-current revenue bonds	$ 8,280,311	8,456,261		

A summary of changes in outstanding revenue bonds at March 31, 2013 and 2012 is as follows:

	2012	Increases	Decreases	2013
Correctional Facilities	$ 69,144	121	(36,115)	33,150
Personal Income Tax Revenue Bonds	6,140,055	843,190	(749,620)	6,233,625
University Facilities	69,998	1,303	(13,100)	58,201
State Office Facilities	142,145	-	(12,540)	129,605
Other Projects	6,574	236	-	6,810
Service Contract Refunding	2,714,815	-	(210,520)	2,504,295
Total	$ 9,142,731	844,850	(1,021,895)	8,965,686

Note 11 - Revenue Bonds, Continued

Revenue bonds issued by UDC on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to UDC 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 UDC, since any debt service not covered by available assets is recovered by State appropriation. UDC assets related to these financings as of March 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Due from State of New York	$ 8,056,245	8,371,022
Debt service reserve	14,919	26,494
Cash and investments	984,155	835,694
Less accrued interest payable	(67,698)	(77,024)
Less other	(21,935)	(13,455)
Bonds payable	$ 8,965,686	9,142,731

Correctional and Youth Facilities Service Contract Revenue Bonds Series A - Defeasance

As of March 31, 2013 and 2012, $ 293.1 million and $424.9 million, respectively, remained outstanding and are considered to be defeased.

Service Contract Revenue Refunding Bonds, Series 2007A

In October 2007, UDC issued $273.2 million Service Contract Revenue Refunding, Series 2007A. The proceeds, in addition to the issuance premium and releases from debt service reserve funds, were used for the purpose of (a) advancing $103.8 million for the refunding of certain lease certificates evidencing the right to receive basic lease payments from the New York State Office of General Services ("OGS") that financed the acquisition of State buildings and other facilities; (b) advancing and currently refunding certain outstanding bonds which were previously issued by UDC to finance improvement of State correctional facilities, totaling $158.1 million, and bonds previously issued for other purposes incidental to the improvement of communities within the State in the amount of $5.8 million; (c) advancing $5.5 million for the refunding of bonds previously issued by the New York State Housing Finance Authority ("HFA") to repay the State for amounts advanced to finance various housing assistance programs; and (d) paying the cost of issuance of the Series 2007A Bonds. Two new asset receivable balances (due from government agencies principal and interest) were recorded in order to reflect the OGS and HFA refunding proceeds, that will offset the debt service payments monies received from the State of New York.

Note 11 - Revenue Bonds, Continued

Service Contract Revenue Refunding Bonds, Series 2008A & B

In June 2008, UDC issued $420.0 million Service Contract Revenue Refunding Bonds, Series 2008A and $450.4 million Series 2008B. The proceeds in addition to the issuance premium of the Series 2008A and 2008B bonds were used for the purpose of (a) refunding certain of the Corporation's Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002B (the "Series 2002B Bonds") previously issued by the Corporation that were issued to refund certain bonds previously issued by the Corporation to fund a portion of the cost of certain correctional facilities of the State; and (b) paying the cost of issuance of the Series 2008A Bonds and the Series 2008B Bonds.

Service Contract Revenue Refunding Bonds, Series 2008C

In September 2008, UDC issued $123.6 million Service Contract Revenue Refunding Bonds, Series 2008C. The proceeds in addition to the issuance premium of the Series 2008C bonds were used for the purpose of (a) refunding the Corporation's Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002B-1 (the "Series 2002B-1 Bonds") previously issued by the Corporation that were issued to refund certain bonds previously issued by the Corporation to fund a portion of the cost of certain correctional facilities of the State; and (b) paying the cost of issuance of the Series 2008C Bonds.

Service Contract Revenue Refunding Bonds, Series 2008D

In November 2008, UDC issued $672.1 million Service Contract Revenue Refunding Bonds, Series 2008D. The proceeds in addition to the issuance premium of the Series 2008D bonds were used for the purpose of (a) refunding the Corporation's Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2003A (the "Series 2003A bonds") maturing on January 1, 2021, January 1, 2027 and January 1, 2028 previously issued by the Corporation, that were issued to refund certain bonds previously issued by the Corporation to fund a portion of the cost of certain correctional facilities of the State; and (b) paying the cost of issuance of the Series 2008D.

Service Contract Revenue Refunding Bonds, Series 2010A-1 & A-2

In June 2010, UDC issued $504.3 million Service Contract Revenue Refunding Bonds Series 2010A-1 and A-2. The proceeds were used for the purpose of (a) refunding the Subseries 2008A-2, A-3 and A-4 of the Corporation's Service Contract Refunding Bonds Series 2008A (collectively, the "Refunded Series 2008A Bonds"); (b) refunding the New York State Housing Finance Agency's ("HFA") Service Contract Revenue Bonds, 2003 Series A, B, C, D, E and G Refunding (collectively, the "Refunded HFA Bonds" and, together with the Refunded Series 2008A Bonds, the "Refunded Bonds"); (c) paying a portion of the costs associated with terminating interest rate exchange agreements relating to certain of the Refunded Bonds (the "Swap Agreements"); and (d) paying the cost of issuance of the Series 2010A Bonds.

Note 11 - Revenue Bonds, Continued

Service Contract Revenue Refunding Bond, Series 2010B

In October 2010, UDC issued $467.3 million Service Contract Revenue Refunding Bond Series 2010B. The proceeds were used for the purpose of (a) refunding all of the currently outstanding $469.3 million aggregate principal amount of the Corporation's Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002A, maturing on January 1, 2017, and $45.1 million aggregate principal amount of the Corporation's Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002C, maturing on January 1, 2020 (collectively, the "Refunded Bonds"); and (b) paying the cost of issuance of the Series 2010B Bonds.

Service Contract Revenue Refunding Bonds, Series 2011A

In September 2011, UDC issued $12.3 million Service Contract Revenue Refunding Bonds Series 2011A. The Series 2011A Bonds were issued to provide a portion of the funds necessary to (A) finance (i) the project costs for the acquisition of the State buildings and facilities known as Hampton Plaza in Albany, New York (the "Hampton Plaza Facility") by providing funds to exercise the option to prepay and purchase the Hampton Plaza Facility contained in the Agreement of Lease Purchase dated as of March 1, 1993 between the City of Albany Industrial Development Agency and the People of the State of New York, thereby resulting in the acquisition of the Hampton Plaza Facility by the State and causing the prepayment of such agreement of lease purchase and the repayment and/or redemption of the City of Albany Industrial Development Agency Industrial Development Revenue Bonds (The Hampton Plaza Project), Series 1993A (the "1993 OGS Debt") and (ii) the project costs for the acquisition of the State buildings and facilities known as the Department of Transportation Region 1 Building at 328 State Street in Schenectady, New York (the "State Street Building") by providing funds to exercise the option to prepay and purchase the State Street Building contained in the Agreement of Lease Purchase dated as of September 27, 2011 by and between Broadway & State, LLC and the People of the State of New York, thereby resulting in the acquisition of the State Street Building by the State and causing the prepayment of such agreement of lease purchase and the repayment and/or redemption of the Certificate of Lease Assignment of the State of New York, Evidencing an Undivided Interest in All Basic Lease Payments to be Paid by the State of New York, Acting Through the Commissioner of General Services of the State of New York (the "2001 OGS Debt" and together with the 1993 OGS Debt, the "OGS Debt"); and (B) pay the cost of issuance of the Series 2011A Bonds.

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Revenue Bonds (State Facilities and Equipment), Series 2007C

In October 2007, UDC issued $321.7 million State Personal Income Tax Revenue Bonds Series 2007C. The Series 2007C were issued for (a)(i) correctional facilities capital projects (the "Correctional Projects"); (ii) youth facilities capital projects (the "Youth Projects"); (iii) funding equipment purchases for the State Departments and agencies, units of the State University of New York and City University of New York and the unified court system (the "Equipment Projects"); (iv) financing State Police facilities (the "State Police Project"); (v) financing public projection facilities in the Division of Military and Naval Affairs (the "Military and Naval Project"); and (vi) certain improvements to State office buildings and other facilities within the State (the "State Projects"); and (b) paying the cost of issuance of the series 2007C Bonds.

State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2008A-1 and A-2

In January 2008, UDC issued $520.1 million State Personal Income Tax Series 2008A-1 and A-2. The $486.1 million Series 2008A-1 were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of a cost of a project, consisting of the financing and refinancing of the costs of (i) financing the Empire Opportunity Fund which provides financial assistance to projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State (collectively the "EOF Project"); (ii) the capital improvement and development of arts, culture, athletic, housing, child care, education, recreational, transportation and economic development facilities within State communities under the Community Capital Assistance Program (collectively the "CCAP"); (iii) financing the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Technology Project"); (iv) the development of economic development projects, including universities development projects, environmental projects, energy projects, initiatives that promote academic research and development projects, or that improve arts and cultural facilities (collectively the "Economic Development Projects"); (v) cultural facilities (collectively the "Cultural Project"); (vi) university development (collectively the "University Project"); (vii) economic development projects which will facilitate the creation or retention of jobs or increase business activity within downtown Buffalo, the Buffalo inner harbor area, surrounding environs (collectively the "Buffalo Project"); (viii) grants, loans or combinations thereof for community enhancement facilities (collectively the "CEFAP Project"); (ix) grants, loans or combinations thereof for strategic investment projects, including environmental projects, such as the preservation of historically significant places in New York State, and projects to conserve, acquire, develop or improve parklands, parks or public recreation areas, including economic development projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2008A-1 and A-2, Continued

(collectively the "SIP Project"); (x) a subsidy of State funds toward the construction of parking facilities in connection with the development of a new Yankee Stadium pursuant to the Parking Facilities Agreement (the "New Yankee Stadium Parking Facilities Project); and (xi) a subsidy of State funds toward the construction of certain infrastructure in connection with the Atlantic Yards Land Use Improvement and Civic Project (the "Atlantic Yards Infrastructure Project") and (b) to pay the costs of issuance of the Series 2008A-1 Bonds.

The $34.0 million Series 2008A-2 Bonds were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of the costs of a Project, consisting of the financing and refinancing of the costs of (i) financing the taxable portion of the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively, the "Taxable Technology Project"), and (ii) taxable economic development projects which will facilitate the creation and retention of jobs or increase business activity within downtown Buffalo (the "Taxable Buffalo Projects"), and (b) to pay the costs of issuance of the Series 2008A-2 Bonds.

State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2009A-1 & A-2 (Taxable)

In January 2009, UDC issued $472.2 million State Personal Income Tax Revenue Bonds Series 2009A-1 and A-2. The $341.1 million Series 2009A-1 bonds were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i) a program designed to encourage economic development and neighborhood growth by providing municipalities with financial assistance for revitalization of commercial and residential properties within the State (collectively the "Restore Communities Project"); (ii) the New York State Technology and Development Program, which assists in financing the costs of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Technology Project"); (iii) various grants, loans or combinations thereof for economic initiatives (collectively the "Economic Initiatives Projects"); (iv) the Investment Opportunity Fund, which will facilitate the creation or retention of jobs or increase investment or business activity within various municipalities or regions of the State, or academic research and development efforts that promote the development of life sciences and high technology initiatives including genomics and biotechnology research (collectively the "Investment Opportunity Project"); (v) the Upstate Regional Blueprint Fund, which consists of financing the Upstate Revitalization Fund and, in support thereof, focuses on intellectual capital capacity building, investment products, applied

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Revenue Bonds (Economic Development and Housing), Series 2009A-1 & A-2 (Taxable), Continued

research and development, opportunity for foreign investment and international exports and infrastructure requirement to, attract new business or expand existing business in the Upstate region of the State (collectively the "Upstate Regional Blueprint Project"); (vi) the development of various economic development projects including specifically the following: EDF Capital Project, Downstate Regional Project, Upstate City by City project, Luther Forest Infrastructure Project and the New York State Economic Assistance Project (collectively the "Economic Development Project"); (vii) the New York State Economic Development Program, which consists of financing various economic development projects outside cities with a population of one million or more (collectively the "NYS Economic Development Program Project"); (viii) the regional Economic Program, which assists in financing grants, loans or combinations thereof for related cost of design, financing, site investigations, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, and infrastructure improvement (collectively the "Regional project"); (ix) a subsidy of State funds toward certain infrastructure in connection with the construction of the new stadium in Queens, including, but not limited to, site acquisition, infrastructure, public amenities, environmental remediation, parking, transit improvements, extraordinary piling (collectively the "Queens Stadium Project"); (x) a subsidy of State funds toward the construction of parking facilities in connection with the development of the new Yankee Stadium pursuant to the Parking Facilities Agreement (collectively the "New Yankee Stadium Parking Facilities Project"); and (xi) a subsidy of State funds toward the construction of certain infrastructure in connection with the Atlantic Yards Land Use Improvements and Civic Project (collectively the "Atlantic Yards Infrastructure Project"); and (b) to pay the costs of issuance of the Series 2009A-1 Bonds incurred by the Corporation.

The $131.1 million Series 2009A-2 (Federally Taxable) were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i) the development and/or expansion of an international computer chip research and development center (collectively the "Sematech Project"); and (ii) the taxable portion of the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Taxable Technology Project"); and (b) to pay the costs of issuance of the Series 2009A-2 Bonds incurred by the Corporation.

State Personal Income Tax Revenue Bonds (State Facilities and Equipment), Series 2009B-1 & B-2 (Federally Taxable)

In January 2009, UDC issued $607.0 million State Personal Income Tax Revenue Bonds Series 2009B-1 and B-2. The $500.2 million Series 2009B-1 were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i)

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Revenue Bonds (State Facilities and Equipment), Series 2009B-1 & B-2 (Federally Taxable), Continued

correctional facilities capital projects (collectively the "Correctional Facilities Project"); (ii) youth facilities capital projects (collectively the "Youth Facilities Project"); (iii) equipment purchases for State departments and agencies, units of the State University of New York and City University of New York and the unified court system (collectively the "Equipment Project"); (iv) State police facilities (collectively the "State Police Project"); (v) public protection facilities in the Division of Military and Naval Affairs (collectively the "Military and Naval Project"); (vi) certain capital projects for office technology facilities, debt services and leases within the State (collectively the "OFT Project"); (vii) New York Court Facilities (collectively the "Court Facilities Project"); and (viii) certain improvements to State office buildings and other facilities within the State (collectively the "State Project"); and (b) to pay the costs of issuance of the Series 2009B-1 Bonds incurred by the Corporation.

The $106.8 million Series 2009B-2 (Federally Taxable) were issued for the purpose of providing the Corporation funds which were used (a) for the payment of the costs of a project, consisting of the financing and reimbursing of costs of (a) certain racetracks within the State (collectively the "NYRA Project"); and (b) to pay the costs of issuance of the Series 2009B-2 Bonds incurred by the Corporation.

State Personal Income Tax Bonds (General Purpose), Series 2009C, 2009D (Federally Taxable) and 2009E (Federally Taxable - Build America)

In December 2009, UDC issued $1.472 billion State Personal Income Tax Revenue Bonds (General Purpose), $672.7 million Series 2009C, $223.2 million Series 2009D (Federally Taxable) and $576.1 million Series 2009E (Federally Taxable - Build America). The Series 2009 Bonds were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of the costs of a project, consisting of the financing and reimbursing of the costs of (i) State facilities projects including correctional facilities, youth facilities, court facilities, State police facilities, the provisions of grants to local governmental entities for various purposes, and equipment purchases for State departments and agencies, units of the State University of New York and City University of New York and the unified court system; (ii) economic development projects throughout New York State, including the development and/or expansion of an international computer chip research and development center, design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure, the reimbursement of the State for money heretofore advanced by it, the provision of grants and subsidies of State funds toward the construction of certain infrastructure for economic development projects and certain housing assistance projects and programs; and (iii) certain other projects and programs supported by State funds; and (b) to pay the costs of issuance of the Series 2009 Bonds incurred by the Corporation.

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Bonds (General Purpose) - Series 2010A, 2010B (Federally Taxable) & 2010C (Federally Taxable - Build America)

In December 2010, UDC issued $1.109 billion State Personal Income Tax Revenue Bonds (General Purpose) $367.3 million Series 2010A, $328.4 million Series 2010B (Federally Taxable) and $413.8 million Series 2010C (Federally Taxable - Build America). The $367.3 million Series 2010A Bonds were issued to finance capital projects and equipment purchases for State departments, agencies and the City University of New York, economic development projects throughout the State, including the equipping of an international computer chip research and development center, and economic development grants under various programs, including but not limited to: the Capital Projects Fund, the Downstate Revitalization Fund, Economic and Community Development Projects, the Empire State Economic Development Fund, the New York State Economic Development Assistance Program, Upstate City-by-City initiatives, Luther Forest infrastructure, and the Upstate Regional Blueprint Fund, as well as other individual projects. The $328.4 million Series 2010B Bonds were issued to finance capital projects to redevelop Governors Island, economic development loans and grants under the Upstate Agricultural Economic Development Fund, the expansion and equipping of a computer chip research and development center at the State University of New York at Albany, and the construction of a video lottery facility and related improvements at the State-owned Aqueduct Racetrack in Queens. The $413.8 million Series 2010C Bonds were issued to finance the development of an international computer chip research and development center and capital projects with respect to facilities and other property owned and operated by various agencies of the State including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Division of Military and Naval Affairs, the New York State Office of Court Administration, and the New York State Office of Homeland Security. Additionally, the proceeds were used to pay the cost of issuance of the Series 2010 Bonds.

State Personal Income Tax Bonds (General Purpose) Series 2011A & 2011B (Federally Taxable)

In December 2011, UDC issued $702.4 million State Personal Income Tax Revenue Bonds (General Purpose) $545.5 million Series 2011A and $156.9 million Series 2011B (Federally Taxable). The Series 2011A Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs: Downstate Regional Projects, the Downstate Revitalization Fund, the Empire State Economic Development Fund, the Empire Opportunity Fund, Luther Forest infrastructure, the New York State Economic Development Program, the New York State High Technology and Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, Upstate City-by-City initiatives, the Capital Projects Fund, and the Upstate Regional Blueprint Fund; capital projects and equipment purchases for State departments and agencies and other State entities; capital projects with respect to facilities and other property owned and operated by various agencies of the State, including: the New York State Department of Correctional Services, the New York State Office of

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Bonds (General Purpose) Series 2011A & 2011B (Federally Taxable), Continued

Children and Family Services, the New York State Police, the New York State Office of Court Administration, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2011B Bonds are being issued to finance the development and/or expansion of an international computer chip research and development center, project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development project costs, grants or loans under the following projects or programs: the New York State Economic Development Assistance Program, the New York State Economic Development Program, the New York State High Technology and Development Program, the Empire State Economic Development Fund, the Empire Opportunity Fund, the Capital Projects Fund, the Upstate Regional Blueprint Fund and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2011 Bonds were used to pay all or part of the cost of issuance of the Series 2011 Bonds.

State Personal Income Tax Bonds (General Purpose) Series 2013A-1, 2013A-2 & 2013B (Federally Taxable)

In March of 2013, UDC issued $843.2 million State Personal Income Tax Revenue Bonds (General Purpose); $572.4 million Series 2013A-1, $70.0 million Series 2013A-2 and $200.8 million Series 2013B (Federally Taxable). The Series 2013A-1 Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs; Art and Cultural Projects, Buffalo Regional Innovation Cluster, the Community Capital Assistance Program, the Community Enhancement Facilities Assistance Program, the Downstate Revitalization Fund, Downtown Buffalo initiative, the Economic Transformation Program, Economic and Community Development Projects, the Governors Island Project, the New York State Economic Development Program, the New York State Economic Development Assistance Program, the New York State Technology and Development Program, the Regional Capital Council Fund, the Regional Economic Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, NY-SUNY 2020, the Upstate Agricultural Economic Development Fund, Upstate City-by-City initiatives, the Capital Projects Fund and the Upstate Regional Blueprint Fund; capital projects with respect to facilities and other property owned and operated by various State departments, agencies and entities, including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs or grants under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2013B Bonds were

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Bonds (General Purpose) Series 2013A-1, 2013A-2 & 2013B (Federally Taxable), Continued

issued to finance projects costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development projects costs, grants or loans under the following projects or programs: the New York State Economic Development Program, the New York State Technology and Development Program, the SUNY College for Nanoscale and Science Engineering initiative, the Capital Projects Fund, the Upstate Regional Blueprint Fund, Upstate City-by-City initiatives, the Regional Council Capital Fund, and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2013 Bonds will be used to pay all or part of the cost of issuance of the Series 2013 Bonds. The Series 2013A-2 Bonds were issued to refund \$47.2 million ESDC State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003C-1, State Facilities and Equipment Series 2002C-1 and Series 2004A-1 and \$32.4 million New York State Housing Finance Agency State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003A and Series 2004A.

In June of 2012, the Dormitory Authority of the State of New York ("DASNY")issued \$1.8 billion in State Personal Income Tax Revenue Refunding Bonds (General Purpose) Series 2012A. Proceeds of \$293.4 million from the DASNY issuance were used to refund a portion of UDC's State Personal Income Tax Revenue Bonds Economic Development and Housing Series 2003C-1 and 2005A-1 and State Personal Income Tax Revenue Bonds State Facilities and Equipment Series 2002A, 2002C-1, 2003B, 2004A-1 and 2005B.

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2013 are as follows (in thousands):

	Principal	Interest (a)	Total
2014	$ 685,375	398,834	1,084,209
2015	631,200	371,645	1,002,845
2016	631,730	345,192	976,922
2017	623,345	316,534	939,879
2018	635,455	287,590	923,045
	$ 3,207,105	1,719,795	4,926,900

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2018 are approximately \$5.759 billion.

Note 11 - Revenue Bonds, Continued

Interest Rate Transactions

During fiscal 2013, there was no new activity related 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, 2013, 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 a deferred inflow of resources and the related deferred loss as a deferred outflow of resources.

Note 12 - New York Convention Center Development Corporation Revenue Bonds

In November 2005, CCDC a subsidiary of UDC, 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.

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

As of March 31, 2013 and 2012, CCDC's outstanding Revenue Bonds were as follows (in thousands):

2005 Revenue Bonds	Balances 2013	Balances 2012	Coupon rates (%)	Remaining payments to
Serial (a)	$ 95,415	95,515	4.00-5.00	2045
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
	699,615	699,715		
Unamortized bond premium	9,547	10,113		
	$ 709,162	709,828		

Interest is payable semiannually on November 15th and May 15th of each year and principal is paid annually on November 15th beginning in 2009.

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

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, 2013 and 2012 is as follows (in thousands):

Note 13 - Other Project Revenue Bonds, Continued

	2013	2012
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)	$ 927	1,210
Less current portion	(305)	(283)
Non-current portion	$ 622	927

At March 31, 2013, required annual principal payments on other project revenue bonds for the next three years are as follows (in thousands):

2014	$ 305
2015	329
2016	293
	$ 927

Note 14 - Other Financing

On March 30, 2007, UDC 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 is being deferred and payable from tenants' project revenues as described more fully in the funding agreement.

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 requires 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 commencing August 2013. The remaining principal, together with all accrued but unpaid interest is due February 2015.

Note 14 - Other Financing, Continued

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.

Note 15 - Pollution Remediation Obligations

In the years ended March 31, 2013 and 2012, the Corporation recognized pollution remediation expense provisions (recoveries) of $(0.2) million and $(2.3) 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, 2013 and 2012, the pollution remediation liability totaled $16.6 million and $22.4 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, 2013 and 2012 consist of the following (in thousands):

	2012	Increases	Decreases	2013
Advances from Port Authority Regional Economic Development Fund - revolving loan program	$ 116,367	-	(51,946)	64,421
Restricted funds for grants, economic development programs and special projects/bonds	63,457	-	(4,983)	58,474
Deferred gain on sale leaseback (a)	16,976	-	(12,647)	4,329
Other loan and revolving loan programs - advances from State	2,134	15	-	2,149
Postemployment benefits other than pensions	18,152	3,224	-	21,376
Other accruals	75,796	-	(9,473)	66,323
	292,882	3,239	(79,049)	217,072
Less current portion	(77,181)			(70,951)
Non-current portion	$ 215,701			146,121

Note 16 - Other Liabilities, Continued

(a) On November 9, 2006, the Corporation sold its corporate headquarters (633 Third Avenue) with the intent of relocating to another site. The sale resulted in a gain of $74.4 million. Subsequent to the sale, ESD senior management during fiscal year 2008, decided not to move but rather to sublease the 633 Third Avenue premises from the purchaser. As a result, the gain is being deferred and amortized over the term of the sublease agreement. In July 2007, the Corporation entered into a lease agreement with a term of six years and lease payments commenced on August 15, 2007.

Note 17 - Appropriations Repayable Under Prescribed Conditions

A recapitalization of UDC, 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 UDC to complete its outstanding development projects.

The appropriations repayable under prescribed conditions originated from the recapitalization of UDC. The State advanced $162.6 million to UDC and $198.1 million to PFA. The PFA obligation was assigned to UDC creating a total amount repayable of $360.7 million. Since 1978, UDC has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2013 and 2012 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 UDC'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 UDC 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 UDC's corporate purpose bonds, issued in connection with a 1996 refunding of UDC'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 its Housing Repairs and Modernization Fund.

As of March 31, 2013, UDC may be required, if and when notified by the State, to provide JDA, through 2014, 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 2013 and 2012. No additional payments are anticipated during 2014.

Note 17 - Appropriations Repayable Under Prescribed Conditions, Continued

It is also anticipated that the $26.2 million due from JDA for reimbursement to UDC for administrative expenses incurred on behalf of JDA as of March 31, 2013 ($26.1 million as of March 31, 2012), may also be credited against appropriations repayable under prescribed conditions. UDC has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by UDC on its investment portfolio. The cumulative interest earned, which covers the last eighteen fiscal years, is $7.3 million.

Note 18 - Retirement Plans

(a) Deferred Compensation and Postemployment Benefits

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

Continued health insurance coverage is the only postemployment benefit provided to UDC 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

UDC 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.

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

Note 18 - Retirement Plans, Continued

(b) State Employees' Retirement System, Continued

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 will contribute at rates from 3% to 6%, dependent on annual salary, for all future periods. The total payroll for all UDC employees for the years ended March 31, 2013 and 2012 amounted to $ 22.9 million and $22.7 million, respectively. UDC is billed annually for retirement contributions. The required contributions for the current year and two preceding years were (in thousands):

2013	$ 4,328
2012	3,356
2011	3,278

Note 19 - Commitments and Contingencies

Commitments and contingencies at March 31, 2013 consist of the following:

(a) Legal Actions

General

UDC 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 UDC have asserted defenses and counterclaims for damages. UDC 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.

UDC 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 UDC and/or its subsidiaries. In all such cases, the potential liability of UDC and/or its subsidiaries is minimal inasmuch as the claims are covered either by UDC's own liability insurance or by indemnity insurance required by UDC 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 UDC, 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. Since execution of the contract, ECHDC has received numerous Notices of Claim from the contractor

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

under this contract, related to various aspects of the contract scope and performance requirements. In May of 2013, ECHDC gave the contractor notice of its intent to terminate the contractor due to the contractor's failure to properly perform under the terms of the contract. As a result, the contractor has brought an action in the NYS Supreme Court seeking an injunction barring ECHDC from terminating the contractor and for an undisclosed amount of monetary relief as a result of its claims for additional work under the terms of the contract. It is expected that the Court will rule this month on the contractor's request for injunctive relief and that its claims for monetary relief will continue.

Of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including UDC. 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), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately $20 million for the alleged negligent 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 UDC, 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, UDC agreed to indemnify DASNY from project-related liabilities. UDC and DASNY are being defended in this lawsuit by the Office of the State of the New York State Attorney General. UDC 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 not been productive, except to resolve 2 of the 4 causes of action against UDC, which 2 causes of action relate to return of unspent county funds. UDC has released these funds and the County has discontinued the causes of action. UDC will shortly make motions to dismiss the remaining 2 causes of action on legal grounds. 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.

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 one in which UDC exercised its powers under the New York State Eminent Domain (condemnation) Procedure Law. UDC filed its condemnation petition in December 2009 to obtain title to certain private Phase I properties needed for the Project; UDC took title to such properties

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Project, Continued

pursuant to Court order in March 2010; and UDC 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 four 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, UDC's sales comparison valuation approach. The final Phase I valuation fee trial is yet to be scheduled. Pursuant to contract, all condemnation awards are to be paid by the Project developer, not UDC.

Two other Atlantic Yards proceedings - 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) - raise claims under the State Environmental Quality Review Act ("SEQRA") and Urban Development Corporation Act ("UDCA"). Among other things, these lawsuits allege that UDC was required to prepare a supplemental environmental impact statement ("SEIS") before affirming certain 2009 Project modifications. In March 2010, the Supreme Court dismissed both proceedings. In November 2010, the Supreme Court granted a motion for reconsideration and renewal, and issued an Order (the "Remand Order") remanding certain issues to UDC for further consideration. The Remand Order did not enjoin the continued construction of the Project and did not vacate the 2009 MGPP or any other Project approval or document. In December 2010, UDC made additional findings as required by the Remand Order. In January 2011, petitioners served supplemental petitions challenging UDC's December 2010 findings and the 2009 MGPP under SEQRA and the UDCA. In July 2011, the Supreme Court ruled that UDC must prepare an SEIS on the potential environmental impacts of an extended build-out of the Project's Phase II (i.e., the 11 buildings and 8 acres of open space east of 6th Avenue) and the extended use of Block 1129 as a surface parking lot, and that UDC must make additional findings with respect to Phase II. This decision also did not enjoin construction, nor did it vacate the 2009 MGPP; therefore, construction of the Project's Phase I continues on site. In April 2012, the Appellate Division affirmed the lower court decision, and in June 2012, the New York State Court of Appeals denied UDC's request for further appeal. Accordingly, UDC is in the process of preparing an SEIS as required by Court order.

In May 2012, the same two petitioners served motions pursuant to CPLR Section 8601, as alleged "prevailing parties", seeking attorneys' fees and expenses in the amount of $310,000. Oral argument on these motions was heard December 7, 2012, and to date no decision has been rendered.

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Project, Continued

UDC is indemnified by the developer of the Atlantic Yards Project for liabilities associated with the Project. Therefore, none of the litigation described above is expected to have a material adverse affect on UDC's financial position.

Columbia University Manhattanville Project

In January 2012, UDC 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, UDC condemned various street interests and conveyed same to Columbia. In March 2012, UDC took title, by condemnation, to five private fee parcels (3 self-storage facilities and 2 gas stations). All such parcels were vacated and transferred to Columbia for use in the Project by November 2012. The remaining issue before the Court in this proceeding is valuation of the five condemned properties. UDC and each condemnee is in the process of finalizing vesting date (3/12/12) fee appraisals. Appraisals are expected to be exchanged this summer 2013, and valuation trials will be schedule as necessary thereafter. Pursuant to contract, all condemnation awards are to be paid by Columbia, not UDC, and therefore this litigation is not expected to have a material adverse affect on UDC's financial position.

Lower Manhattan Development Corporation

Of note are exposures arising from the ownership of 130 Liberty Street, New York, New York (the "Building"), by Lower Manhattan Development Corporation ("LMDC"), a UDC subsidiary. LMDC has been served with numerous lawsuits or notices of claims for alleged personal injuries suffered in connection with a major fire at the Building on August 18, 2007, other construction accidents at the Building, 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 LMDC's own insurance policies, subject to any applicable deductibles. All such claims are being vigorously defended by LMDC or for LMDC by the indemnifying parties. It has been reported to LMDC that several personal injury claims have been settled conditionally without contribution by LMDC. Management believes that the ultimate outcome of all of these legal actions will not have a material adverse effect on either LMDC's or UDC's financial condition.

LMDC also faces claims on contracts associated with work at the Building. In August 2007, The John Galt Corp. ("Galt"), a subcontractor, was terminated for cause by Bovis Lend Lease LMB ("Bovis"), LMDC's general contractor at the building. Galt instituted an action against Bovis and LMDC for breach of contract and wrongful termination, among other claims. In April 2009, LMDC's motion to dismiss Galt's claims against it was granted. Additionally, LMDC was sued by

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

Bovis and Bovis sureties ("Sureties") regarding alleged change orders, extra work, extensions of time and excusable delay, all claimed to be the basis for additional payments due to Bovis above the lump sum amount specified in its contract. By order dated January 22, 2010, the Sureties' claims against LMDC other than for subrogation were dismissed. The Sureties' claim for subrogation is outstanding, although it is currently stayed pending the outcome of Galt's bankruptcy action (which was filed in 2012).

On August 11, 2009, Galt, Regional Scaffolding & Hoisting Co., Inc. and Windham Construction Corp. instituted a lien foreclosure action, The John Galt Corp., et al., v. Bovis Lend Lease LMB, Inc., et al., Index No. 602568/09 (Sup. Ct. N.Y. County). On March 15, 2012, the claims of Regional Scaffolding and Windham Construction were dismissed with prejudice. LMDC continues to vigorously defend the remaining claims.

On October 23, 2009, Bovis instituted a contract action against LMDC - Bovis Lend Lease (LMB), Inc. v. Lower Manhattan Development Corp., Index No. 603243/09 (Sup. Ct. N.Y. County) - seeking judgment in excess of $80 million against LMDC. LMDC is vigorously defending this lawsuit. LMDC also has filed, and is vigorously pursuing, its own counterclaims against Bovis seeking over $100 million in repayment of advances and damages suffered by LMDC resulting from Bovis' breach of its obligations to LMDC. LMDC filed a motion to dismiss most of Bovis' claims. In orders issued in May 2011 and April 2012, respectively, the court granted in part and denied in part LMDC's motions. These orders were appealed, and on May 28, 2013, the Appellate Division, First Department, issued an order dismissing most of Bovis' claims for damages against LMDC. This order is subject to appeal to the New York State Court of Appeals. With respect to the remaining Bovis claims, LMDC continues to vigorously defend its position. Further, with respect to LMDC's pending counterclaims, LMDC continues to vigorously pursue these counterclaims. Management believes that LMDC has strong defenses to Bovis' claims, and strong arguments in support of the position that it should recover on its counterclaims an amount in excess of any liability to Bovis. But Management cannot predict the outcome of this litigation.

In May 2012, Eddington Security, Inc., a subcontractor that provided security services at the Building, served on LMDC a lawsuit against LMDC, Bovis, and various insurance companies seeking approximately $3 million in payments allegedly owed as a result of services provided at the Building. LMDC moved to dismiss these claims, and Eddington's claims against LMDC have since been dismissed. Bovis (the prime contractor for whom Eddington worked) cross claimed against LMDC, and those claims remain. LMDC continues to vigorously defend these claims.

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

From time-to-time in the ordinary course of LMDC's business, various actions or notices are asserted alleging LMDC liability for a variety of matters in lower Manhattan. LMDC defends 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, 2013 or June 7, 2013 will have a material adverse impact on LMDC's or UDC's financial condition.

LMDC understands that Bovis was the subject of construction fraud investigations by various law enforcement agencies and, as a result of an investigation into fraudulent billing at New York construction sites, in April 2012 Bovis entered into a deferred prosecution agreement with the United States Attorney's Office for the Eastern District of New York requiring it to make restitution to the defrauded parties, including to LMDC. LMDC management does not expect these investigations of Bovis' fraudulent practices to have a material adverse impact on LMDC's or UDC's financial condition.

Note 20 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 61 - "The Financial Reporting Entity: Omnibus" is designed to improve financial reporting for governmental entities by amending the requirements of Statements No. 14 "The Financial Reporting Entity" and No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." This statement amends the criteria for including component units by only including those component units for which the elected officials are financially accountable or that the government determines would be misleading to exclude. This statement also amends the criteria for blending of component units to include only those component units that are so intertwined with the primary government that they are essentially the same as the primary government. The requirements of the statement are effective for periods beginning after June 15, 2012, which is the fiscal year beginning April 1, 2013 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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

Note 20 - Accounting Standards Issued But Not Yet Implemented, Continued

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. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 66 - "Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. Statements No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 67 - "Financial Reporting for Pension Plans - an Amendment of GASB Statement No. 25" replaces existing standards for financial reporting and note disclosure for most pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning April 1, 2014 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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.

Note 20 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 69 - "Government Combinations and Disposals of Government Operations" establishes accounting and financial reporting standards for government mergers, acquisitions and disposals. The statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effect of those transactions. The requirements of this statement are effective for periods beginning after December 15, 2013, which is the fiscal year beginning April 1, 2014 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 70 - "Accounting and Financial Reporting for Nonexchange Financial Guarantees" improves the accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. The statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The statement also requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The requirements of this statement are effective for periods beginning after June 15, 2013, which is the fiscal year beginning April 1, 2014 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

Note 21 - Subsequent Event

As provided in the 2013-14 New York State Budget, and by agreement made as of May 30, 2013, the Corporation's Housing Portfolio was assigned to the New York State Housing Finance Agency ("HFA") on June 5, 2013 (the "Transfer Date") to consolidate and refinance the State's portfolio of subsidized mortgages for affordable housing. HFA made a one-time payment of approximately $45.4 million to the Corporation for the Housing Portfolio that will be used for operating expenses over the next two fiscal years. As a result of the transfer, the Corporation has recognized a loss of approximately $116.3 million for the fiscal year ended March 31, 2013, to reflect the difference between the book value of the assets being transferred and the amount the Corporation will receive.

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

	Actuarial		Unfunded Actuarial			Unfunded Liability as a Percentage
Valuation Date	Value of Assets	Accrued Liability	Accrued Liability	Funded Ratio	Covered Payroll	of Covered Payroll
April 1, 2010	$ -	56,402,127	56,402,127	-%	25,791,938	218.7%
April 1, 2011	-	54,064,331	54,064,331	-	22,114,312	244.5%
April 1, 2012	-	56,957,313	56,957,313	-	22,944,541	248.2%

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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 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, 2013, 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 the consolidated financial statements, and have issued our report thereon dated June 7, 2013.

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 entity'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free of 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 7, 2013

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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, 2013.

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, 2013.

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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 7, 2013