NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2014 and 2013

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

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TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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, 2014 and 2013, and the related notes to consolidated financial statements, which collectively comprise the Corporation's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2014 and 2013, 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.

Other Matters

As described in note 2 to the financial statements, the Corporation adopted the provisions of GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities." Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18 and the Schedule of Funding Progress - Other Postemployment Benefits on page 66 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 16, 2014, 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 16, 2014 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 16, 2014

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

March 31, 2014 and 2013

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, 2014. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

Economic Development Programs and Initiatives

ESD continued its efforts to promote economic development throughout the State during fiscal 2014. 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 ("REDC") initiative was established in 2011, supported by funding via the Regional Council Capital Fund as part of the State's fiscal year 2011-12 budget. Over the past three years, the Regional Council Capital Fund, which is administered by ESD, has made available over $430 million of capital grant funding for the State's REDC 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 REDC initiative is to administer the Regional Council Capital Fund and any other funding, allocated annually, that is awarded through a competitive Consolidated Funding Application review process.

During fiscal 2014, through the initiative above and other 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 economic activity, the ESD Directors approved financial assistance for 238 companies and organizations. During this period, the $467 million ESD investment approved by the Directors leveraged an additional $4 billion in total investment, resulting in the retention and creation of over 22,000 jobs. In addition, ESD administers the Excelsior Jobs Program that provides job creation and investment incentives to firms in certain targeted industries, ranging from biotechnology to manufacturing. Businesses in these industries that create and maintain jobs or make significant financial investments are eligible to apply for up to four new tax credits through the New York State Department of Taxation and Finance.

Significant activity continued during fiscal 2014 within three economic development programs that were established under the State Small Business Credit Initiative (SSBCI). The SSBCI is part of the federal Small Business Jobs Act of 2010, which supports state-level business credit programs. The programs enable small businesses to leverage new capital and credit to help them create private sector jobs. 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 and during fiscal 2014 invested over $10.9 million in small businesses. 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 allocated for this program, with $647 thousand deployed to lenders to facilitate $12.4 million in loans to small businesses. 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 $2.2 million already allotted to businesses, facilitating approximately $13.5 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.

During fiscal 2014, ESD continued to work closely with New York State Homes and Community Renewal (HCR) and the Governor's Office of Storm Recovery to formulate grant and low-interest loan programs for businesses that suffered eligible uncompensated losses as a direct result of Super Storm Sandy, Hurricane Irene or Tropical Storm Lee ("Sandy, Irene and Lee"). Grants range from 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 are available to businesses in the seasonal tourism and fisheries industries and to those businesses that invest in mitigation efforts to prepare for the impacts of future storms. Loans of up to $1 million at 2% interest rate and seven-year maximum term will be provided to businesses that have a need beyond the grant programs.

ESD entered into an inter-agency agreement with HCR to administer a program that offers free mentorship to small businesses in storm-impacted counties (Business Mentor NY), tourism marketing programs, and a "program marketing" campaign that promotes the availability of storm recovery programming for businesses in the areas affected by Sandy, Irene and Lee. The $40.5 million in total contracted services is comprised of: $3 million for the pro bono small business mentorship program, Business Mentor NY; $30 million to oversee the work of an advertising agency to develop and implement an industry-wide advertising and marketing campaign in order to provide immediate support to the State's tourism industry and promote travel to communities; $7.5 million to oversee the work of an advertising agency to undertake an industry-wide marketing campaign to launch and promote the Small Business Storm Recovery Program. In addition to contracting with HCR for these services, ESD has played a significant advisory role in the implementation of the small business grant and loan programs, working closely with the Governor's Office of Storm Recovery, HCR and the program intermediaries.

In addition to the funding highlighted above for advertising and marketing, ESD continues to administer and manage a robust communications, marketing and tourism campaign. The campaign is committed to grow the tourism industry, create jobs, increase the number of visitors to the State and demonstrate to businesses that New York is the place to invest and grow. ESD is also the administrative agency for the New York State Film Tax Credit Program, which is designed to increase the film production and post-production industry presence in and overall economic benefits to New York State. Program tax credits of $420 million per year, which do not flow through ESD, can be allocated and used to encourage companies to produce film and television projects in the State and help create and maintain film industry jobs.

New Economic Development Tax Incentives

In fiscal 2014, ESD began co-administering the START-UP NY (SUNY Tax-free Areas to Revitalize and Transform Upstate NY) initiative which will transform SUNY campuses and university communities across the state into tax-free communities, including no income tax for employees and no sales, property or business tax for ten years. START-UP NY has begun to attract venture capital, start-ups, new business and investments from across the nation and around the globe to New York by offering new business the opportunity to operate completely tax-free while also partnering with the world-class higher education institutions in the SUNY system. Businesses participating in the program need to be aligned with or further the academic mission of the campus, college or university sponsoring the tax-free community, have positive community and economic benefits and create and maintain new jobs.

Subsidiaries and Economic Development Projects

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

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office ("Farley") building in fiscal 2007 as a part of the redevelopment of Moynihan Station. 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 first refinanced in fiscal 2010 and then again in fiscal 2013 at \$101.0 million for two years. Interest continues to be capitalized and ESD made two principal payments of \$250,000 each in fiscal 2014. 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, 2014, the remaining combined balance of this debt is \$172.2 million. The current project is a planned relocation of Amtrak's intercity rail operations from existing Pennsylvania Station to a redeveloped Farley building and is being advanced in two distinct phases. Phase I, which is currently underway, will construct the commuter concourse for the new station, install an emergency platform ventilation system and renovate the underground connection from the 8th Avenue subway. Funding for this construction 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. Efforts continue to advance Phase 2. In fiscal 2014, MSDC engaged the services of an events management firm and implemented a comprehensive events marketing strategy for the Farley building which has increased annual revenue to more than \$3.0 million.

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 \$42.1 million and \$41.6 million for the fiscal years ended March 31, 2014 and 2013, respectively. Construction costs related to the expansion and renovation of the Javits Center at March 31, 2014 were approximately \$600.0 million. The expansion of the structure has been well received by the construction industry and is marketable to a new customer base. The construction includes, among other improvements, replacement of the exterior curtain wall, the roof and the heating and cooling system. As a result of savings achieved through favorable bidding and careful management of a contingency, additions to the project scope are in progress and include a new food service venue, retail kiosks, site work and new interior flooring. The project is anticipated to be completed in the fall of 2014, with close-out completed by the end of the 2014 calendar year.

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, 2014, more than $3.056 billion of the total $3.483 billion in funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

ESD continues to be actively involved in the Atlantic Yards (AY) Project which consists of plans to redevelop twenty-two acres of underutilized land in downtown Brooklyn. The general project plan adopted in July 2006, and modified in June 2009, includes an arena for the Nets, a reconfigured Vanderbilt yard and subway facility, and sixteen buildings for residential, office, retail uses and potential for a hotel. The residential development will include an affordable component and eight acres of the site are planned for publicly-accessible open space. The developer, Forest City Ratner Companies ("FCR") has completed the arena and in December 2012, broke ground on the first residential tower. In October 2013, FCR entered into an agreement with Shanghai-based Greenland Group Co. to create a joint venture to acquire and develop the Atlantic Yards Development.

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 2014 include: funding over 800 events and activities at Canalside bringing over 800,000 visitors to Buffalo; completing the Master Plan for a future Children's Museum on the Aud Block; developing plans to light the grain elevators that line the Buffalo River; opening Wilkeson Pointe, a 21-acre site on Buffalo's Outer Harbor which was developed into a public access space; and acquiring the Outer Harbor land to work with ESD and NYS Parks on its redevelopment.

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 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 few key items on the USAN agenda are: further development of the Rainbow Centre Mall; the Hamister Group Hotel Development Project; and creation of the Downtown Niagara Falls Development Challenge which will be a major competition to select a team of world-class developers and operators to develop signature projects in downtown Niagara Falls.

Other examples of economic development and redevelopment include Harlem Community Development Corporation ("HCDC"), Queens West Development Corporation ("QWDC), Research Foundation of SUNY (Nanotech), Columbia University Educational Mixed-Use Development Land-Use Improvement and Civic Project, Fort Schuyler Management Quad C-Phase II, GEMX Technologies and National September 11 Memorial and Museum.

New Accounting Pronouncement

For the year ended March 31, 2014, the Corporation adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statement:

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

The adoption of this standard required restatement of the net position at the beginning of the fiscal year ended March 31, 2013. The effect of this restatement is to reduce beginning net position in the fiscal year ended March 31, 2013 by $1.0 million to reflect the expensing of bond issuance costs of $0.8 million and elimination of 2013 amortization expense of $0.2 million.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2014 and 2013:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2014	2013 (As restated)
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 298,644	211,055
Other current assets	3,437,028	2,468,173
Total current assets	3,735,672	2,679,228
Non-current assets:		
Investment securities - restricted	177,875	214,094
Loans and leases receivable	123,242	128,673
Due from State of New York	8,410,039	7,612,444
Due from Port Authority of New York and New Jersey	142,511	166,532
Due from New York Job Development Authority	26,230	26,171
Capital assets, net	1,741,981	1,561,771
Other assets	31,538	29,027
Total non-current assets	10,653,416	9,738,712
Total assets	14,389,088	12,417,940
Deferred outflows of resources	70,104	98,033
Liabilities		
Current liabilities	1,331,783	1,047,163
Non-current liabilities	10,845,772	9,267,227
Total liabilities	12,177,555	10,314,390
Deferred inflows of resources	217,649	239,639
Minority interest	164,692	154,832
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	133,824	221,126
Total restricted	331,378	418,680
Net investment in capital assets	1,567,918	1,388,432
Total net position	$ 1,899,296	1,807,112

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

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

	2014	2013 (As restated)
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 1,316	8,946
Housing companies	3,919	16,473
Nonresidential projects	7,793	7,742
Interest on revenue bonds	52,003	59,318
Hotel tax revenue	42,113	41,553
Reimbursed grants	271,976	180,490
Economic development grants	575,564	289,508
State appropriation for programs	5,764	14,064
Other revenue	2,969	55,030
Total operating revenue	963,417	673,124
Operating expenses:		
Interest related to:		
Corporate purpose bonds	1,924	5,734
Corporate loans	4,033	5,181
Interest on revenue bonds	52,003	59,318
Reimbursed grants	136,644	79,821
Economic development grants	580,962	295,831
General and administrative	89,854	109,319
Subsidiary program and administrative	35,001	52,181
Pollution remediation	4,103	(220)
Provision for recoveries on loans and leases receivable and investments in other assets	(55,971)	(8,700)
Depreciation	13,531	13,729
Total operating expenses	862,084	612,194
Minority interest	(9,860)	(9,668)
Operating income	91,473	51,262
Non-operating revenue	411,030	363,020
Non-operating expenses	(410,319)	(363,299)
Loss on transfer of housing portfolio	-	(116,291)
Change in net position	92,184	(65,308)
Net position at beginning of year, as previously stated	1,807,112	1,873,450
Restatement (note 2)	-	(1,030)
Net position at beginning of year, as restated	1,807,112	1,872,420
Net position at end of year	$ 1,899,296	1,807,112

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately \$298.6 million and \$211.1 million at March 31, 2014 and 2013, respectively. The increase is primarily due to the receipt of a one-time payment of \$45.4 million for the transfer of the Housing Portfolio and 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, 2014, ESD had \$45.6 million, net of unamortized premium, in corporate purpose debt outstanding. No new corporate purpose debt was issued during fiscal 2014 and 2013. In addition, it had \$10.7 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 December of 2013, ESD issued \$1,208.8 million in State Personal Income Tax Revenue Bonds (General Purpose); \$812.8 million Series 2013E and \$396.0 million Series 2013F (Federally Taxable). The Series 2013E and 2013F bonds were issued to finance or reimburse all or a portion of the cost of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing projects, economic development projects and State facilities projects. In addition, proceeds of the Series 2013E and 2013F Bonds will be used to pay all or part of the cost of issuance of the Series 2013E and 2013F Bonds.

In September of 2013, ESD issued \$1,230.8 million in State Personal Income Tax Revenue Bonds (General Purpose); \$753.1 million Series 2013C and \$477.7 million Series 2013D. The Series 2013C bonds were issued to enable the Corporation to fund certain projects relating to (1) reimbursing the State for certain expenditures made or to be made by the New York Department of Transportation in connection with the State's current multi-year highway and bridge capital program; and (2) the making of grants to reimburse municipalities and other project sponsors throughout the State for qualifying capital expenditures for highway, bridge and multi-modal projects. Proceeds of the Series 2013 Bonds also may be used to finance other transportation projects as permitted under the Project Acts. The statutes pursuant under which these projects are being financed include: sections 380, 385 and 386-a of the Public Authorities Law, sections 10-c, 10-e, 10-f, 10-g and 80-b of the Highway Law, sections 14-j and 14-k of the Transportation Law, Chapters 329, 330 and 331 of the Laws of New York of 1991, section 89-b of the State Finance Law and other applicable New York statutes (the "Project Acts"). Additionally, the proceeds of the Series 2013C Bonds will be used to pay all or part of the cost of issuance of the Series 2013C

Capitalization, Continued

Bonds. The Series 2013 Bonds are not secured by the Projects or any interest therein. The Series 2013D were issued to refund $19.7 million ESD State Personal Income Tax Revenue Bonds (State-Facilities and Equipment), Series 2005B. The remaining bond proceeds were used to refund certain bonds issued by the following: the New York State Thruway Authority for $396.0 million, the New York State Environmental Facilities Corporation for $85.7 million, and the New York State Housing Finance Agency for $20.6 million. Additionally, the proceeds of the Series 2013D Bonds were used to pay all or part of the cost of issuance of the Series 2013D Bonds.

In March of fiscal 2013, ESD 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 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 ESD 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.

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 ESD'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.

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

In fiscal 2013, ESD 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.

Also outstanding as of March 31, 2014 is $699.1 million in revenue bonds issued by the New York Convention Center Development Corporation in November 2005.

Interest Rate Transactions

During fiscal 2014, 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, 2014, the total amount of swap terminations related to the original 2002B Bonds was $800 million. The remaining $200.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

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.

Interest Rate Transactions, Continued

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, 2014, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Facility Service Contract - Refunding 2010B	N/A	AA-	AA-
Personal Income Tax Revenue Bonds Series 2009 B1	N/A	AAA	AA
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, 2014 was $92.2 million compared with ($65.3) million in the prior year. The increase is primarily due to the fact that fiscal year 2013 included the transfer of ESD's Housing Portfolio to the New York State Housing Finance Agency which resulted in a loss of approximately $116.3 million and necessitated the adjustment of all related loan loss reserves in fiscal year 2014.

Revenue

Operating revenue in the 2014 fiscal year approximated $963.4 million compared with $673.1 million in fiscal 2013.

Increases in operating revenue primarily occurred in the following categories:

- Hotel tax revenue increased by approximately $0.6 million as a result of continued increased tourism to New York City.
- Reimbursed grants revenue increased by approximately $91.5 million due primarily to an increase of $29.4 million in HUD grant funding to LMDC and ESD as a result of increased activity in existing programs and the receipt of $27.4 million in Community Development Block Grant Disaster Recovery funds from HUD (administered through New York State Homes and Community Renewal) for disaster relief to businesses that sustained losses as a result of Super Storm Sandy, Hurricane Irene and Tropical Storm Lee. In addition, grant funding to subsidiaries increased as a result of the receipt of $52.3 million in federal funds by MSDC, offset by reductions in funds received by ECHDC, HCDC and other subsidiaries of approximately $17.6 million.
- Economic development grants funding increased by $286 million due to an increase in activity within existing and new grant programs, including the following projects: National September 11 Memorial, Gemx Technologies, SUNY Research Foundation, and Fort Schuyler Management Quad C-Phase II.

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from HUD subsidy, housing companies and nonresidential projects decreased by approximately $20.1 million due to a decrease in housing receipts as a result of the transfer of ESD's Housing Portfolio in fiscal 2013.
- Interest on revenue bonds decreased by approximately $7.3 million due to the repayment and refunding of certain bonds.
- State appropriation for programs decreased by $8.3 million due to a decrease in economic development loan program activity.

- Other revenues decreased by approximately $52.1 million due primarily to the transfer of ESD's Housing Portfolio in fiscal 2013 and the termination of the associated Tenant Repair and Improvement Loan Program. In addition, there was a reduction in recognized revenue in the worldwide communications and marketing promotion program, NY Open for Business.

Non-operating revenue for fiscal year ended March 31, 2014 approximated $411.0 million compared to $363.0 million in fiscal year 2013. The increase of $48.0 million is due primarily to the increase in revenue from the State for debt service obligations related to the issuance of new bonds, offset by the repayment of certain existing bonds.

Expenses

Operating expenses in the fiscal year ended March 31, 2014 approximated $862.1 million in comparison to $612.2 million in fiscal 2013. The net increase of $249.9 is primarily the result of changes in the following categories:

Increases in operating expenses primarily occurred in the following categories:

- Economic development grants increased by approximately $285.1 million due to an increase in activity within existing and new grant programs, including the following projects: National September 11 Memorial, Gemx Technologies, SUNY Research Foundation and Fort Schuyler Management Quad C-Phase II.
- Reimbursed grants expense increased by approximately $56.8 million due primarily to an increase of $29.4 million in HUD grants to LMDC and ESD as a result of increased activity in existing programs and $27.4 million in grants from HUD (administered through New York State Homes and Community Renewal) for disaster relief to businesses that sustained losses as a result of Super Storm Sandy, Hurricane Irene and Tropical Storm Lee.
- Pollution remediation expense increased by approximately $4.3 million due primarily to remediation on issues at a property acquired during the fiscal year.

Decreases in operating expenses primarily occurred in the following categories:

- Interest expenses decreased for corporate purpose bonds by approximately $4.9 million due to the principal repayment of certain bonds.
- Interest on revenue bonds decreased by approximately $7.3 million due to the repayment and refunding of certain bonds.
- General and administrative expenses decreased by $19.5 million due primarily to a reduction in billing activity related to the worldwide communication and marketing promotion program, NY Open for Business and reduced spending in consultant and legal fees and rent.

- Subsidiary program and administrative expenses decreased by approximately $17.2 million due primarily to a reduction in personal services and non-depreciable capital expenditures at certain subsidiaries, including LMDC, USAN, ECHDC and QWDC.
- Provision for recoveries on loans and leases receivable and investment in other assets decreased by approximately $47.4 million due to the transfer of ESD's Housing Portfolio in fiscal 2013 and the required reversal of loan reserves associated with the portfolio.

Non-operating expenses increased approximated $410.3 million compared to $363.3 million in fiscal 2013. The increase of $47.0 million is due primarily to an increase in new bonds issued and the related debt service.

Anticipated Future Transactions and Information

The following are anticipated to effect the Corporation subsequent to March 31, 2014:

- In April 2004, the Corporation issued 2004A Corporate Purpose Subordinate Lien Bonds for the purpose of funding economic development projects or programs. The remaining outstanding balance of these bonds is callable at the option of the Corporation beginning July 1, 2014. The Corporation has performed its due diligence, analyzed the alternatives and has determined that it is fiscally prudent to exercise this option. Therefore, the trustee holding the funds has been notified that on July 2, 2014 the outstanding bonds of $42.8 million are to be redeemed.
- 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 ("FHA") on June 5, 2013 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 is being used to help meet operating expenses over the current and next fiscal years. As a result of the loss of revenue associated with the Housing Portfolio, ESD is working to identify alternative revenue streams to meet its future operating expenses.

Request for Information

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

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Net Position
March 31, 2014 and 2013

	2014	2013 (As restated)
	(In thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 90,218	34,834
Temporary investments	208,426	176,221
	298,644	211,055
Cash and investment securities restricted or designated for:		
Corporate purpose bonds	59,985	41,040
Revenue bonds	2,058,901	984,155
Economic development	354,837	291,710
Subsidiary and other purposes	595,291	592,686
	3,069,014	1,909,591
Loans and leases receivable:		
Residential mortgage loans	-	45,388
Non-residential, principally leases	3,225	4,500
Economic development loans	911	1,216
	4,136	51,104
Due from State of New York	307,396	443,801
Due from Port Authority of New York and New Jersey	25,607	25,607
Other current assets	30,875	38,070
Total current assets	3,735,672	2,679,228
Investment securities restricted or designated for:		
Corporate purpose bonds	157,649	179,620
Revenue bonds	20,226	34,474
	177,875	214,094
Loans and leases receivable:		
Non-residential, principally leases	27,554	30,507
Economic development loans	95,688	98,166
	123,242	128,673
Due from State of New York	8,410,039	7,612,444
Due from Port Authority of New York and New Jersey	142,511	166,532
Due from New York Job Development Authority	26,230	26,171
Real property and office equipment, net	1,741,981	1,561,771
Other assets	31,538	29,027
Total non-current assets	10,653,416	9,738,712
Total assets	14,389,088	12,417,940
Deferred outflows of resources - deferred loss on derivative	70,104	98,033

(Continued)

See accompanying notes to consolidated financial statements.

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

	2014	2013 (As restated)
	(In thousands)	
Liabilities		
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Corporate purpose bonds	$ 4,705	4,495
Revenue bonds	728,475	685,375
Project revenue bonds - New York Convention Center Development Corporation	1,115	505
Other project revenue bonds	329	305
Other financing	172,283	59,548
	906,907	750,228
Accounts payable and accrued expenses	234,361	146,538
Interest payable	80,439	82,607
Other current liabilities	110,076	67,790
Total current liabilities	1,331,783	1,047,163
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Corporate purpose bonds	40,970	45,845
Revenue bonds	9,972,796	8,280,311
Project revenue bonds - New York Convention Center Development Corporation	706,977	708,657
Other project revenue bonds	293	622
Other financing	6,000	102,492
	10,727,036	9,137,927
Repayable to related governmental entities	3,581	3,530
Pollution remediation liability	20,228	16,603
Other liabilities	94,927	109,167
Total non-current liabilities	10,845,772	9,267,227
Total liabilities	12,177,555	10,314,390
Commitments and contingencies (note 20)		
Deferred inflows of resources		
Fair market value of derivatives	70,104	98,033
Grants payable	118,523	101,493
Other	29,022	40,113
	217,649	239,639
Minority interest	164,692	154,832
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	133,824	221,126
Total restricted	331,378	418,680
Net investment in capital assets	1,567,918	1,388,432
Total net position	$ 1,899,296	1,807,112

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, 2014 and 2013

	2014	2013 (As restated)
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 1,316	8,946
Housing companies	3,919	16,473
Nonresidential projects	7,793	7,742
Interest on revenue bonds	52,003	59,318
Hotel tax revenue	42,113	41,553
Reimbursed grants	271,976	180,490
Economic development grants	575,564	289,508
State appropriation for programs	5,764	14,064
Other revenue	2,969	55,030
Total operating revenue	963,417	673,124
Operating expenses:		
Interest related to:		
Corporate purpose bonds	1,924	5,734
Corporate loans	4,033	5,181
Interest on revenue bonds	52,003	59,318
Reimbursed grants	136,644	79,821
Economic development grants	580,962	295,831
General and administrative	89,854	109,319
Subsidiary program and administrative	35,001	52,181
Pollution remediation	4,103	(220)
Provision for recoveries on loans and leases receivable and investments in other assets	(55,971)	(8,700)
Depreciation	13,531	13,729
Total operating expenses	862,084	612,194
Minority interest	(9,860)	(9,668)
Operating income	91,473	51,262

(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

	2014	2013 (As restated)
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 409,993	362,288
Interest and finance income earned on investment of revenue bond proceeds	349	603
Other investment income, including change in fair value	688	129
Total non-operating revenue	411,030	363,020
Non-operating expenses - interest and other costs on revenue bonds	(410,319)	(363,299)
Non-operating income (loss)	711	(279)
Loss on transfer of housing portfolio	-	(116,291)
Change in net position	92,184	(65,308)
Net position at beginning of year, as previously stated	1,807,112	1,873,450
Restatement (note 2)	-	(1,030)
Net position at beginning of year, as restated	1,807,112	1,872,420
Net position at end of year	$ 1,899,296	1,807,112

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2014 and 2013

	2014	2013 (As restated)
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 13,028	33,161
State appropriation received for interest on debt	52,003	59,318
Other operating receipts	2,969	52,030
Cash received from hotel tax revenue	41,908	41,091
Grants received	887,544	515,350
Interest payments on corporate purpose bonds	(2,465)	(6,404)
Interest payments on revenue bonds	(52,003)	(59,318)
Payments for general and administrative expenses	(42,537)	(184,999)
Grant payments	(704,434)	(459,525)
Payments for pollution remediation	(478)	(5,600)
Net cash provided by (used in) operating activities	195,535	(14,896)
Cash flows from non-capital financing activities:		
Retirement of corporate purpose bonds	(4,665)	(65,944)
Retirement of other project revenue bonds	(305)	(283)
Increase (decrease) in other liabilities	16,955	(75,812)
Net cash provided by (used in) non-capital financing activities	11,985	(142,039)
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	2,439,545	843,190
Retirement of revenue bonds	(703,960)	(1,020,235)
Accrued interest payable on revenue bonds	(1,619)	(9,326)
Bond payments - New York Convention Center Development Corporation, net of issuing costs	(1,078)	(667)
Advances on behalf of State of New York for special projects	(661,190)	314,777
Proceeds from other financing	-	(1)
Net cash provided by capital financing activities	1,071,698	127,738
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	19,711,260	13,413,898
Purchase of investment securities	(20,866,669)	(13,342,610)
Investment income, net	711	(279)
Cash payments on behalf of the New York Job Development Authority	(59)	(89)

(Continued)

See accompanying notes to consolidated financial statements.

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

	2014	2013 (As restated)
	(In thousands)	
Cash flows from investing activities, continued:		
Payments received from projects financed by corporate revenue bonds	$ 49,616	113,919
Collections on economic development loans	58,805	3,440
Net activity on economic development projects	16,243	9,210
Investment in real property and office equipment	(193,741)	(158,886)
Net cash provided by (used in) investing activities	(1,223,834)	38,603
Net increase in cash and equivalents	55,384	9,406
Cash and equivalents at beginning of year	34,834	25,428
Cash and equivalents at end of year	$ 90,218	34,834
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	91,473	51,262
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	13,531	13,729
Minority interest	9,860	9,668
Provision for recoveries on loans and leases receivable and investments in other assets	(55,971)	(8,700)
Changes in:		
Due from Port Authority of New York and New Jersey	24,021	17,477
Other current assets	7,195	5,434
Other assets	(2,511)	4,810
Accounts payable and accrued expenses	87,823	(104,213)
Grants payable	17,030	5,127
Interest payable	(541)	(670)
Accrued interest income - mortgage	-	(3,000)
Pollution remediation liability	3,625	(5,820)
Net cash provided by (used in) operating activities	$ 195,535	(14,896)
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 ("ESD" or the "Corporation"), which together with its subsidiaries does business as Empire State Development ("ESD"), is a corporate governmental agency of the State of New York (the "State"), constituting a political subdivision and a public benefit corporation. Accordingly, for financial reporting purposes, the accompanying consolidated financial statements are combined as a component unit enterprise fund in the State's annual financial report. Created by legislation in 1968, ESD has broad powers, which can be utilized for civic, industrial, commercial or residential development purposes.

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

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

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

(a) Economic Development and Job Creation

ESD is the State's primary agent for economic development with co-headquarters in Albany, Buffalo and New York City that are supported by a network of additional locations throughout the State. ESD works in partnership with the public and private sectors to create an environment that spurs innovation and economic development while enhancing New York State's competitive advantage as the world capital for many industries, ranging from finance and media to technology and agriculture. ESD's mission is to promote a vigorous and growing 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. Earlier projects were financed through the issuance of non-recourse revenue bonds and mortgages (see note 13). The financial assistance is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation which are disbursed to projects. Federal funding is also received through various programs to provide assistance to small businesses, businesses who have sustained losses as a result of natural disasters and other purposes that spur economic development.

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development and Job Creation, Continued

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

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary. The purpose of the subsidiary is to assist in the economic recovery and revitalization of lower Manhattan. In 2001, LMDC received a direct grant of up to $2.783 billion from the United States Department of Housing and Urban Development ("HUD") and Federal Transportation Administration. Approximately $114.9 million and $86.0 million were received and disbursed during the years ended March 31, 2014 and 2013, respectively.

Additionally in 2001, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $2.1 million and $0.3 million was received and disbursed during the years ended March 31, 2014 and 2013, respectively. As of March 31, 2014, $0.1 million was returned to HUD from Grantee repayments.

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

(b) State Special Projects

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

(c) Marketing

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

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

ESD is an enterprise fund that follows the economic resource measurement focus and the accrual basis of accounting. The Corporation complies with all applicable pronouncements of 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.

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

(b) New Accounting Pronouncement

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

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

The adoption of this standard required restatement of the net position at the beginning of the fiscal year ended March 31, 2013. The effect of this restatement is to reduce beginning net position in the fiscal year ended March 31, 2013 by $1.0 million to reflect the expensing of bond issuance costs of $0.8 million and elimination of 2013 amortization expense of $0.2 million.

(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.

Note 2 - Summary of Significant Accounting Policies, Continued

(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.

(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 ESD 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 ESD primarily with appropriations received from the State. Revenue is recognized when economic development project receivables are collected, principal is amortized and interest income is recorded.

(g) Delinquent Interest

Delinquent interest on residential mortgages, nonresidential mortgages and ESD advances to housing companies is recognized as income upon the receipt of cash.

Note 2 - Summary of Significant Accounting Policies, Continued

(h) Revenue Bonds

Revenue bonds, consisting of many programs, including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities, are issued by ESD at the direction of the State 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. ESD expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses such as bond issuance costs, discounts and advance refunding costs. During fiscal 2014 and 2013, ESD received from the State $1.118 billion and $1.091 billion, respectively.

Amounts received from the State were used to meet principal payments of $639.1 million and $676.6 million in fiscal 2014 and 2013, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2014 and 2013 ESD applied $48.5 million and $15.1 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

During fiscal 2014, at the direction of the New York State Division of the Budget, ESD received $381.4 million in advances for debt service obligations due throughout fiscal 2015 related to certain State supported debt. These funds are currently held with the Trustees and their investment earnings will be applied to future debt service obligations.

(i) Bond Defeasances and Refundings

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

In fiscal 2014 ESD had no Corporate Purpose bond redemptions. In fiscal 2013, ESD redeemed $56.3 million of the Corporate Purpose Subordinate Lien Bond Series 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 ESD since it is fully reimbursed by the State for all expenses related to revenue bonds, including debt service requirements.

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

Note 2 - Summary of Significant Accounting Policies, Continued

(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, 2014 and 2013, construction costs incurred in the amount of approximately \$193.7 million and \$158.9 million, respectively were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of \$33.8 million, net of \$0.8 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 economic development grants and loans, hotel tax collections, State appropriations for interest on revenue bonds where the Corporation's Board of Directors approves the disbursement of the funds, and grants from Federal, State and City agencies. The Corporation's operating expenses include project and program costs, related administrative expenses, interest related to corporate purpose and revenue bonds, depreciation and pollution remediation costs. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

(l) State Appropriations

State appropriations are subject to approval by the State Legislature. ESD has no assurance that required appropriations will be made beyond the current year to meet certain debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet ESD's obligations for fiscal 2015.

(m) Grants

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

Note 2 - Summary of Significant Accounting Policies, Continued

(n) Derivative Instruments

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

(o) Pollution Remediation Costs

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

(p) Subsequent Events

The Corporation has evaluated events after March 31, 2014, and through June 16, 2014, 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 2013 balances in order to conform them to the 2014 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 ESD's name with bond trustees or custodian banks.

At March 31, 2014 and 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):

Note 3 - Cash and Equivalents, Continued

	2014 Carrying Amount	2014 Bank balance	2013 Carrying amount	2013 Bank balance
Insured (FDIC)	$ 1,615	1,615	1,798	1,889
Uninsured - collateral held by custodian in ESD's name	488,960	489,192	253,445	257,282
Deposits held in trust for the Corporation's benefit	17,907	17,907	2,439	2,439
Total cash and cash equivalents	$ 508,482	508,714	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;
- Bonds and other obligations of governmental authorities, political subdivisions, Federal Agencies, Government Sponsored Enterprises (GSE's) or public authorities of the State or of the United States of America, which are securities in which the Corporation lawfully may invest pursuant to applicable statutes, regulations and bond resolutions including but not limited to Federal National Mortgage Association (FNMA) Federal Farm Credit Bank (FFCB), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC - "Freddie Mac"), and Student Loan Marketing Association (SLMA - "Sallie Mae");
- Repurchase agreements with financial institutions doing business in New York State which are listed as primary government securities dealers by New York's Federal Reserve Bank, and which are collateralized by U.S. Government securities;
- Commercial paper issued by domestic banks, corporations and financial companies rated "A-1" or better by Standard & Poor's Corporation or "P-1" by Moody's Investors Service, Inc.;
- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in ESD's name;
- Certificates of deposit; and
- Units, shares or interest in a mutual fund or money market fund of regulated investment companies that meet specified criteria.

Investment securities cost and fair value at March 31, 2014 and 2013 consisted of the following (in thousands):

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

Note 4 - Fair Value of Financial Instruments, Continued

	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)

Restricted or designated investment securities held by ESD include cash and equivalents and investment securities amounting to $595.3 million and $592.7 million at March 31, 2014 and 2013, respectively. These amounts at March 31, 2014 and 2013 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2014	2013
Subsidiary/Programs/Purposes:		
42nd Street Development Project	$ 10,417	14,093
New York Empowerment Zone Corporation	12,667	17,893
Queens West Development Corporation	10,355	15,652
Harlem Community Development Corporation	5,114	4,694
Enterprise Community	134	837
USA Niagara Development Corp	12,892	13,778
Lower Manhattan Development Corporation	623	1,399
New York Convention Center Development Corporation	290,387	341,515
ESD Moynihan Station (James A. Farley Post Office Building)	25,863	18,540
ESD One Bryant Park	7,501	7,599
ESD Columbia SAC	12,735	18,545
ESD Erie Canal Harbor Development Corporation	28,172	24,593
ESD Privatization Program	718	617
Empire State New Market Corporation	1,365	1,299
ESD OPEB Liability Account	26,850	19,530
ESD Brooklyn Arena Project, ESD Atlantic Yard Project -Phase 1	927	1,351
ESD 125 Maiden Lane	63,728	63,737
ESD New York	3,066	3,066
ESD Project Repair Program	15,340	14,828
ESD Farley	9,231	-
ESD Marriot Marquis Purchase Option Fund	1,398	-
ESD TRAIL Remaining Fund	3,881	-
ESD Section 32 Remaining Fund	1,334	-
ESD Stadium Improvement Project	44,757	-
ESD Erie County Stadium Corporation Capital Improvement	2,967	-
ESD/550 Washington Street Project Improvement	750	-

Note 4 - Fair Value of Financial Instruments, Continued

	2014	2013
Subsidiary/Programs/Purposes:		
ESD Arthur Kill Development Project	$ 950	-
ESD Housing Resyndication & Project Improvement	-	1,818
Lower Manhattan Development Corporation 130 Liberty Escrow	-	1,962
Columbia University Manhattan Campus	-	1,453
NYSESD Housing Disbursement	-	3,473
Other Purposes	1,169	414
Totals	$ 595,291	592,686

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, 2014 and 2013 consist of the following (in thousands):

	2014		2013	
	Number	Balance	Number	Balance
Residential mortgage loans (a):				
HUD subsidized (Section 236)	-	$ -	41	$ 94,456
Non-subsidized projects	-	-	3	19,639
Retention Loan (Section 32 Advance)	-	-	7	21,953
Tenant Repair Loan	-	-	12	25,631
	-	-	63	161,679
Loss on transfer of housing portfolio		-		(116,291)
		-		45,388
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (b)	7	20,956	7	24,084
Commercial leases (c)	4	8,479	4	9,723
Real estate investments (d)	4	1,344	4	1,200
	15	30,779	15	35,007
Economic development loans (e)	104	96,599	104	99,382
Total	119	127,378	182	179,777
Less current portion		(4,136)		(51,104)
Non-current portion		$ 123,242		$ 128,673

Note 5 - Loans and Leases Receivable, Continued

(a) Residential Mortgage Loans

As provided in the 2013-14 New York State Budget, and by agreement (the "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 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 recognized a loss of approximately $116.3 million in 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.

Certain projects required advances from ESD because of the failure of certain mortgagors to take such actions deemed by the Corporation to be necessary or appropriate to protect the mortgaged property. Such advances, amounting to $1.1 million and $1.5 million for the years ended March 31, 2014 and 2013, respectively, were expensed for financial reporting purposes, but were added to the mortgage receivable balances for credit management purposes. In addition, there were no retention loan advances for the years ended March 31, 2014 and 2013, respectively.

As a result of the transfer of ESD's Housing Portfolio to HFA, the Tenant Repair and Improvement Loan Program was terminated as of December 31, 2013. The 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. The Corporation disbursed loan advances to reimburse approved Tenant Repair and Improvement Loan Program construction completed by December 31, 2013. There were loan advances in the amount of $7.9 million and $11.5 million for the years ended March 31, 2014 and 2013, respectively.

(b) Non-residential Lease Receivables

Non-residential lease receivables consist of 7 projects outstanding in both 2014 and 2013 which were owned by ESD and leased to others. ESD recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2014, the remaining lease terms ranged from 1 to 10 years. There are 6 leases with the City of New York ($19.8 million) and 1 is with a bank ($1.1 million). At March 31, 2014, minimum lease payments to be received within the next 5 fiscal years total $17.2 million.

Note 5 - Loans and Leases Receivable, Continued

(c) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments due to the Corporation pursuant to ground leases on four Roosevelt Island housing projects totaling 2,141 units which include two non-subsidized, one subsidized, and one cooperative. Although the ESD 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 one to sixteen years. The receivable balance of $8.5 million is amortized at an average annual interest rate of 7.5%.

(d) Real Estate Investments

Real estate investments consist of approximately 201 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.

(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 20 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 at March 31, 2014 and 2013.

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

ESD expects to receive $395.0 million over 15.5 years from the Port Authority of New York and New Jersey ("Port Authority"). The revenue stream was assigned to ESD in fiscal 2005 by the State of New York. The net present value of the future cash flows in the amount of approximately $280.0 million was recorded in the consolidated financial statements in fiscal 2005 as a receivable from the Port Authority and revenue (included with State appropriation for programs). At March 31, 2014, annual minimum payments to be received in each of the next five years is approximately $26.1 million per year. The net present value of the receivable balance at March 31, 2014 and 2013 amounted to $167.6 million and $185.8 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 2014, the Port Authority made three payments to MSDC totaling $5.8 million. No payments were made in fiscal 2013. The receivable balance at March 31, 2014 and 2013 amounted to $0.5 million and $6.3 million, respectively.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2014 and 2013 consists of the following (in thousands):

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

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

	2013			
	Balance at March 31, 2012	Additions	Disposals	Balance at March 31, 2013
Land	$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,272,903	122,920	-	1,395,823
Moynihan Station	63,894	35,486		99,380
Furniture and equipment	23,532	480	-	24,012
	1,728,022	158,886	-	1,886,908
Less accumulated depreciation	(311,408)	(13,729)	-	(325,137)
Totals	$ 1,416,614	145,157	-	1,561,771

Note 7 - Real Property and Office Equipment, Continued

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2014 and 2013 are as follows (in thousands):

	2012	Net increase (decrease)	2013	Net increase (decrease)	2014
New York Convention Center Development Corporation	$ 942,306	114,059	1,056,365	99,914	1,156,279
USA Niagara	17,252	221	17,473	47	17,520
James A. Farley Post Office Building and other ESD property	307,820	8,535	316,355	13,405	329,760
Other Subsidiaries	5,525	105	5,630	-	5,630
Total	$ 1,272,903	122,920	1,395,823	113,366	1,509,189

(b) James A. Farley Post Office Building

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

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	

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

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

Note 7 - Real Property and Office Equipment, Continued

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

In fiscal 2013, the $91.8 million loan was refinanced for an additional term of two years for a total of $101.0 million (including capitalized interest). Interest continues to be capitalized and, in fiscal 2014, ESD made two principal payments of $250,000 each.

(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.

(d) Depreciation

Depreciation expense for the years ended March 31, 2014 and 2013 amounted to $13.5 million and $13.7 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2014 and 2013 consist of the following (in thousands):

	2014	2013
Interest receivable	$ (3,325)	(363)
Receivable from municipalities, other authorities and others	7,014	7,457
Receivable from HUD - LMDC grant	30,326	29,190
Hotel tax receivable	10,477	10,273
Prepaid insurance	2,241	3,826
Other assets - 125 Maiden Lane	908	908
Other	14,772	15,806
	62,413	67,097
Less current portion	(30,875)	(38,070)
Non-current portion	$ 31,538	29,027

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.

As indicated above, the Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they reach the normal retirement age of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees. Total expenditures charged to operations for the years ended March 31, 2014 and 2013 amounted to $6.1 million and $5.1 million, respectively, of which the Corporation paid $2.0 million and $1.9 million, respectively. At March 31, 2014 and 2013, the liability for postemployment benefits other than pensions amounted to $25.5 million and $21.4 million, respectively.

The number of participants as of March 31, 2014 and 2013 was as follows:

	2014	2013
Active employees	252	258
Retired employees	169	181
Total	421	439

Funding Policy - For the years ended March 31, 2014 and 2013, 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, 2014 and 2013, the Corporation's annual OPEB cost amounted to $6.1 million and $5.1 million, respectively.

Note 9 - Postemployment Benefits Other Than Pensions, Continued

Benefit Obligations and Normal Cost (in Thousands)	2014	2013
Actuarial accrued liability ("AAL"):		
Active employees	$ 33,131	25,964
Retired employees	36,856	30,993
Total	$ 69,987	56,957
Underfunded actuarial accrued liability ("UAAL")	$ 69,987	56,957
Normal cost at beginning of year	$ 3,003	2,608

Level Dollar Amortization		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	$ 3,044	2,478
Normal costs with interest to end of year	3,035	2,635
Annual required contribution ("ARC")	$ 6,079	5,113

Annual OPEB Cost Contribution		
Contribution for the year	$ 2,001	1,889
Contribution as a percentage of required contribution	32.9%	37.0%

Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 6,079	5,113
Contribution made on a pay-as-you-go basis	(2,001)	(1,889)
Increase in net OPEB obligation	4,078	3,224
Net OPEB obligation at beginning of year	21,376	18,152
Net OPEB obligation at end of year	$ 25,454	21,376

Actuarial methods and assumptions:

Funding interest rate	4.5%
2012/2013 trend rate (medical and drugs)	4.8%
2013/2014 trend rate (medical and drugs)	4.8%
Ultimate trend rate (medical and drugs)	4.2%
Year ultimate trend rate rendered	2016
Annual payroll growth rate	2.5%
Actuarial cost method	Projected Unit Credit Method
The remaining amortization period at March 31, 2014	23 years

Note 10 - Corporate Purpose Bonds

As of March 31, 2014 and 2013, UDCs outstanding corporate purpose bonds were as follows (in thousands):

	Coupon rates (%)	Balance at March 31, 2013	Principal payment	Redeemed	Balance at March 31, 2014	Maturity date	Sinking Fund Annual Installment Requirements Ranging: From year	Amount	Through year	Amount	Final amount
2004A Subordinate Lien Bonds (a):											
Serial	4.125	$ 6,825	(4,495)	-	2,330	2015	2015	2,330	2015	-	-
Term (b)	5.125	42,800	-	-	42,800	2022	2015	4,810	2022	34,605	3,385
		49,625	(4,495)	-	45,130						
Principal outstanding		49,625	(4,495)	-	45,130						
Unamortized bond discount		715			545						
Total		50,340			45,675						
Less current portion		(4,495)			(4,705)						
Total non-current liabilities		$ 45,845			40,970						

(a) Early redemption options may commence in 2015 at 100%.
(b) Range shown represents 8 term bonds with 8 maturity dates.

Note 10 - Corporate Purpose Bonds, Continued

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 $167.6 million and $185.8 million at March 31, 2014 and 2013, respectively.

No new corporate purpose debt was issued during fiscal 2014 and 2013.

In fiscal 2013, ESD 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 accordance with the respective bond resolutions, ESD 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, 2014 are as follows (in thousands):

	Principal	Interest	Total
2015	$ 4,705	2,290	6,995
2016	4,935	2,072	7,007
2017	5,195	1,819	7,014
2018	5,460	1,553	7,013
2019	5,745	1,273	7,018
	$ 26,040	9,007	35,047

Aggregate principal maturities subsequent to 2019 are approximately $19.1 million.

Note 11 - Revenue Bonds

At March 31, 2014 and 2013, ESD's outstanding revenue bonds were as follows (in thousands):

	Balances		Coupon	Maturity
(a) Correctional Facilities	2014	2013	rates (%)	dates
Correctional Facilities Revenue Bonds				
1993A Refunding	$ -	13,080	5.50	2014
Correctional Capital Facilities				
1993A Capital Refunding	-	20,070	5.25	2014
Total Correctional Facilities Issues	-	33,150		
(b) Personal Income Tax Revenue Bonds (P.I.T.)				
State Facilities and Equipment				
2004 Series A-1	760	25,165	5.00	2016
2004 Series A-2	300,385	300,485	3.875 - 5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2005 Series B	92,065	117,360	4.00 - 5.00	2035
2007 Series B	234,630	241,030	4.00 - 5.00	2037
2007 Series C	238,380	244,870	4.00 - 5.00	2037
2009 Series B-1	385,885	402,035	3.00 - 5.25	2038
2009 Series B-2 (Taxable)	54,790	66,475	6.45	2018
Economic Development and Housing				
2003 Series A-1	-	5,210	4.00 - 5.00	2014
2003 Series A-2 (Taxable)	-	15,830	4.85	2014
2003 Series C-1	-	1,800	5.00	2023
2004 Series B-1	4,240	4,240	5.00	2015
2004 Series B-2	960	1,875	3.5	2015
2005 Series A-1	79,690	85,445	3.50 - 5.00	2026
2005 Series A-2 (Taxable)	16,495	24,195	4.70 - 4.73	2016
2007 Series A	21,205	24,415	3.75 - 5.00	2023
2008 Series A-1	343,855	361,745	3.50 - 5.00	2028
2008 Series A-2	15,430	18,880	4.53 - 4.86	2018
2009 Series A-1	237,225	259,850	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	75,255	87,770	6.50	2019

(Continued)

Note 11 - Revenue Bonds, Continued

(b) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
General Purpose	2014	2013	rates (%)	dates
2009 Series C	$ 595,245	613,240	3.00 - 5.00	2023
2009 Series D (Taxable)	-	54,350	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)	70,770	144,525	2.03 - 2.63	2015
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	487,450	513,145	3.50 - 5.00	2041
2011 Series B (Taxable)	119,935	136,160	0.98 - 2.79	2021
2013 Series A-1	572,390	572,390	3.50 - 5.00	2043
2013 Series A-2	67,585	70,030	2.00 - 5.00	2026
2013 Series B (Taxable)	166,485	200,770	0.22 - 1.75	2019
2013 Series C	753,055	-	5.00	2033
2013 Series D	477,695	-	5.00	2025
2013 Series E	812,835	-	2.00 - 5.00	2043
2013 Series F (Taxable)	395,960	-	0.25 - 3.45	2023
Total Personal Income Tax Revenue Bonds	8,260,995	6,233,625		
(c) University Facilities				
Columbia University 1989 Series (Taxable)	25,298	28,954	zero coupon	2020
Cornell University 1989 Series (Taxable)	3,388	3,877	zero coupon	2020
Clarkson University - Loan 1995 Series	5,110	5,815	5.50	2020
Syracuse University - Loan 1995 Series	7,150	9,285	5.50	2017
University Facilities Grants 1995 Series	9,075	10,270	5.50 - 5.88	2021
Total University Facilities Issues	50,021	58,201		
(d) State Office Facilities				
State Office Facilities 1995 Refunding Series	116,335	129,605	5.60 - 5.70	2021
(e) Other Projects				
Community Enhancement Facilities - Assistance Program 1998 Series	-	6,810	zero coupon	2014

(Continued)

Note 11 - Revenue Bonds, Continued

(f) Service Contract Refunding	Balances 2014	Balances 2013	Coupon rates (%)	Maturity dates
2005 Series A	$ 104,565	140,640	3.60 - 5.00	2019
2005 Series B	20,575	23,475	4.00 - 5.00	2020
2007 Series A	220,945	235,110	4.00 - 5.25	2029
2008 Series A	200,000	200,000	Variable note	2030
2008 Series B	439,425	439,425	4.00 - 5.25	2030
2008 Series C	121,235	121,235	3.75 - 5.00	2030
2008 Series D	573,725	609,640	4.25 - 5.63	2028
2010 Series A	391,395	428,305	4.00 - 5.00	2022
2010 Series B	192,455	295,470	4.00 - 5.00	2017
2011 Series A	9,600	10,995	2.00 - 4.00	2021
Total Service Contract Refunding	2,273,920	2,504,295		
Total all issues	10,701,271	8,965,686		
Less current portion	(728,475)	(685,375)		
Total non-current revenue bonds	$ 9,972,796	8,280,311		

A summary of changes in outstanding revenue bonds at March 31, 2014 and 2013 is as follows:

	2013	Increases	Decreases	2014
Correctional Facilities	$ 33,150	-	(33,150)	-
Personal Income Tax Revenue Bonds	6,233,625	2,439,545	(412,175)	8,260,995
University Facilities	58,201	-	(8,180)	50,021
State Office Facilities	129,605	-	(13,270)	116,335
Other Projects	6,810	-	(6,810)	-
Service Contract Refunding	2,504,295	-	(230,375)	2,273,920
Total	$ 8,965,686	2,439,545	(703,960)	10,701,271

Note 11 - Revenue Bonds, Continued

Revenue bonds issued by ESD on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to ESD to make payments for debt service (principal and interest) on the bonds and related expenses. Therefore, the financing of all revenue bonds is not expected to result in any net revenue or expense to ESD, since any debt service not covered by available assets is recovered by State appropriation. ESD assets related to these financings as of March 31, 2014 and 2013 are as follows (in thousands):

	2014	2013
Due from State of New York	$ 8,717,435	8,056,245
Debt service reserve	20,226	14,919
Cash and investments	2,058,901	984,155
Less accrued interest payable	(66,078)	(67,698)
Less other	(29,213)	(21,935)
Bonds payable	$ 10,701,271	8,965,686

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

As of March 31, 2014 and 2013, $94.3 million and $ 293.1 million, respectively, remained outstanding and are considered to be defeased.

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

In March of 2013, ESD 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 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 project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit

Note 11 - Revenue Bonds, Continued

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

corporations, and economic development project 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 2013 Bonds are not secured by the Projects or any interest therein. The Series 2013A-2 Bonds were issued to refund $47.2 million ESD 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.

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

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

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

Note 11 - Revenue Bonds, Continued

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

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

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2014 are as follows (in thousands):

	Principal	Interest (a)	Total
2015	$ 728,475	488,482	1,216,957
2016	738,535	459,798	1,198,333
2017	744,115	427,545	1,171,660
2018	762,455	395,031	1,157,486
2019	724,710	361,420	1,086,130
	$ 3,698,290	2,132,276	5,830,566

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2019 are approximately $7.0 billion.

Interest Rate Transactions

During fiscal 2014, 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, 2014, 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.

Note 11 - Revenue Bonds, 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 swap agreements in connection with its $649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and the $30.5 million State Personal Income Tax Revenue Bonds Series 2004B-2 (Economic Development and Housing). In September 2008, the swap agreement in connection with State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative Products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4, $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. In September 2010, the remaining swaps for 2004A-2 and 2004B-2 were terminated.

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

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

Note 12 - New York Convention Center Development Corporation Revenue Bonds

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

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

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

As of March 31, 2014 and 2013, CCDC's outstanding Revenue Bonds were as follows (in thousands):

2005 Revenue Bonds	Balances 2014	Balances 2013	Coupon rates (%)	Remaining payments to
Serial (a)	$ 94,910	95,415	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
	699,110	699,615		
Unamortized bond premium	8,982	9,547		
	$ 708,092	709,162		

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

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

Annual principal maturities and interest obligations for the next five years following March 31, 2014 are as follows (in thousands):

	Principal	Interest	Total
2015	$ 1,115	34,726	35,841
2016	1,770	34,681	36,451
2017	2,465	34,610	37,075
2018	3,210	34,499	37,709
2019	4,015	34,339	38,354
	$ 12,575	172,855	185,430

Aggregate principal maturities subsequent to 2019 are approximately $686.5 million.

Note 13 - Other Project Revenue Bonds

Other project revenue bonds have been issued and secured loans originated in connection with specific economic development projects. The balances on these bonds at March 31, 2014 and 2013 is as follows (in thousands):

Note 13 - Other Project Revenue Bonds, Continued

	2014	2013
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)	$ 622	927
Less current portion	(329)	(305)
Non-current portion	$ 293	622

At March 31, 2014, required annual principal payments on other project revenue bonds for the next year is as follows (in thousands):

2015	$ 329
2016	293
	$ 622

Note 14 - Other Financing

On March 30, 2007, ESD completed the purchase of the James A. Farley Post Office Building and entered into two financing agreements totaling $205.0 million. The first note of $75.0 million was issued to a bank and required semi-annual payments of interest only at the rate of 5.375% per annum. Principal together with all accrued but unpaid interest was originally due in April 2010. The second note was issued to the United States Postal Service for $130.0 million. Payments on the note were/are due on the following dates: (a) On June 30, 2007, $45.0 million as adjusted by the March 30, 2007 Consumer Price Index ("CPI"); (b) On June 30, 2008, $30.0 million as adjusted by the March 30, 2007 CPI; (c) the remaining balance of $55.0 million 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 that commenced in August 2013. The remaining principal, together with all accrued but unpaid interest is due February 2015. ESD made two principal payments of $250,000 each in fiscal 2014.

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, 2014 and 2013, the Corporation recognized pollution remediation expense provisions (recoveries) of $4.1 million and $(0.2) 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, 2014 and 2013, the pollution remediation liability totaled $20.2 million and $16.6 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, 2014 and 2013 consist of the following (in thousands):

	2013	Increases	Decreases	2014
Advances from Port Authority Regional Economic Development Fund - revolving loan program	$ 295	162	-	457
Restricted funds for grants, economic development programs and special projects/bonds	110,402	-	(20,725)	89,677
Other loan and revolving loan programs - advances from State	395	13	-	408
Postemployment benefits other than pensions	21,376	4,078	-	25,454
Other accruals	44,489	44,518	-	89,007
Totals	176,957	48,771	(20,725)	205,003
Less current portion	(67,790)			(110,076)
Non-current portion	$ 109,167			94,927

Note 17 - Deferred Inflows of Resources - Other

Deferred inflows of resources - other at March 31, 2014 and March 31, 2013 consist of the following (in thousands):

	2013	Increases	Decreases	2014
Restricted funds for grants, economic development programs and special projects/bonds	$ 12,200	-	(1,452)	10,748
Deferred gain on sale leaseback (a)	4,329	-	(3,329)	1,000
Other loan and revolving loan programs - advances from State	1,754	-	-	1,754
Other accruals	21,830	-	(6,310)	15,520
Totals	$ 40,113	-	(11,091)	29,022

Note 17 - Deferred Inflows of Resources - Other, Continued

(a) On November 9, 2006, the Corporation sold its corporate headquarters at 633 Third Avenue with the intent of relocating to six floors at 125 Maiden Lane, which were purchased with the sale proceeds. 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 and sell the property at 125 Maiden Lane. 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. As of the end of fiscal 2013, all the floors at 125 Maiden Lane were sold.

Note 18 - Appropriations Repayable Under Prescribed Conditions

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

The appropriations repayable under prescribed conditions originated from the recapitalization of ESD. The State advanced $162.6 million to ESD and $198.1 million to PFA. The PFA obligation was assigned to ESD creating a total amount repayable of $360.7 million. Since 1978, ESD has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2014 and 2013 amounted to $197.6 million.

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

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

As of March 31, 2014, ESD may be required, if and when notified by the State, to provide JDA, through 2015, with annual amounts ranging from $10.0 million to $10.7 million, depending on anticipated annual cash flow savings from the 1996 Refunding. No payments were made to JDA in 2014 and 2013. No payments are anticipated during 2015.

Note 18 - Appropriations Repayable Under Prescribed Conditions, Continued

It is also anticipated that the $26.2 million due from JDA for reimbursement to ESD for administrative expenses incurred on behalf of JDA as of March 31, 2014 ($26.2 million as of March 31, 2013), may also be credited against appropriations repayable under prescribed conditions. ESD has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by ESD on its investment portfolio. The cumulative interest earned, which covers the last nineteen fiscal years, is $7.4 million.

Note 19 - Retirement Plans

(a) Deferred Compensation and Postemployment Benefits

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

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

(b) State Employees' Retirement System

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

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

Note 19 - Retirement Plans, Continued

(b) State Employees' Retirement System, Continued

Participating employers are required under the NYSRSSL to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the NYSRSSL. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Systems Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, and Tier V employees who contribute 3% of their salary. Tier VI employees contributed 3% of their salary for the period from their hire date until March 31, 2013, and will contribute at rates from 3% to 6%, dependent on annual salary, for all future periods. The total payroll for all ESD employees for the years ended March 31, 2014 and 2013 amounted to $23.1 million and $22.9 million, respectively. ESD is billed annually for retirement contributions. The required contributions for the current year and two preceding years were (in thousands):

2014	$ 5,217
2013	4,328
2012	3,356

(c) New York State Voluntary Defined Contribution Program

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

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

As of March 31, 2014, there are seven ESD employees enrolled in the VDC program.

Note 20 - Commitments and Contingencies

Commitments and contingencies at March 31, 2014 consist of the following:

(a) Legal Actions

General

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

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

In April 2012, Erie Canal Harbor Development Corporation ("ECHDC"), a subsidiary of ESD, entered into the Inner Harbor Phase 3A-Canalside Public Canal Environment Contract. The total contract price, as that term is defined in the contract, is not to exceed $19,784,000. ECHDC received numerous Notices of Claim from the contractor under this contract, related to various aspects of the contract scope and performance requirements. Effective in July of 2013, ECHDC terminated the contractor due to the contractor's failure to properly perform under the terms of the contract. The work is currently being completed by the bonding company. The contractor has brought an action in the NYS Supreme Court for wrongful termination seeking an undisclosed amount of monetary relief as a result of its claims for additional work under the terms of the contract. The action is currently in the discovery phase with a trial date set for August of 2015.

Of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including ESD. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County), 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 ESD, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

contractors for negligence, breach of contract, negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, ESD agreed to indemnify DASNY from project-related liabilities. ESD and DASNY are being defended in this lawsuit by the Office of the New York State Attorney General. ESD and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. Discovery proceedings are continuing. To date, settlement discussions and mediation efforts have resolved four of the six causes of action against ESD. Two of the four resolved causes of action relate to the return of unspent county funds, which ESD has released to the County; the other two are tort claims, which the County has agreed to discontinue with prejudice. ESD has moved to dismiss the remaining two causes of action, for breach of contract, on legal grounds. A decision on ESD's motion is currently pending. An appeal from the decision by the losing party is likely, and could take a year or more to resolve. As a consequence, no assessment of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss can be made.

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 ESD exercised its powers under the New York State Eminent Domain (condemnation) Procedure Law. ESD filed its condemnation petition in December 2009 to obtain title to certain private Phase I properties needed for the Project; ESD took title to such properties pursuant to Court order in March 2010; and ESD obtained vacant possession of such properties in May 2010. The remaining issue before the Court in this proceeding is valuation of the condemned properties. Valuation trials for five of the condemned fee parcels have concluded; two of those matters have voluntarily settled. The Court issued its first decision on April 15, 2013 in connection with a small self-storage facility. While the Court found that some upzoning was probable, it rejected claimant's proposed upzoning valuation and adopted, and modified, ESD's sales comparison valuation approach. A fixture claim involving the same property has been settled. The Court issued a decision in a second case on June 21, 2013. The property was a gas station. The Court rejected the claimant's appraisal that proposed a rezoning and new residential development because it failed to consider a Long Island Railroad easement that restricted development at the property. The Court adopted with modification ESD's income capitalization approach to the existing use. The Court decided a third valuation case on May 7, 2014, where the Court held that there was a reasonable probability that the property, vacant land on Atlantic Avenue, would be upzoned and redeveloped with a hotel. The Court valued the property using the sales comparison approach and adjusted four of the claimant's land sales to arrive at a value. The 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 ESD.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Project, Continued

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 ("ESDA"). Among other things, these lawsuits allege that ESD 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 ESD 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, ESD made additional findings as required by the Remand Order. In January 2011, petitioners served supplemental petitions challenging ESD's December 2010 findings and the 2009 MGPP under SEQRA and the ESDA. In July 2011, the Supreme Court ruled that ESD 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 ESD 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 ESD's request for further appeal. Accordingly, ESD is in the process of authorizing a final SEIS as required by Court order. A public scoping session for the SEIS was held in February 2013; ESD Directors accepted a draft SEIS in March 2014; and a public hearing on the draft SEIS was held in April 2014.

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. In September 2013, the Supreme Court granted the fee request, and the matter was settled in October 2013 for $300,000.

ESD 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 ESD's financial position.

Columbia University Manhattanville Project

In January 2012, ESD commenced proceedings under the New York State Eminent Domain (condemnation) Procedure Law to acquire property necessary for Phase I of this Project. In cooperation with The City of New York, ESD condemned various street interests and conveyed same to Columbia. In March 2012, ESD took title, by condemnation, to five private fee parcels

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Columbia University Manhattanville Project, Continued

(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. ESD and each condemnee have finalized and exchanged vesting date (3/12/12) fee appraisals. ESD has exchanged rebuttal appraisals on the gas stations and is ready to do so on the storage facilities. Valuation trials will be scheduled as necessary thereafter. Pursuant to contract, all condemnation awards are to be paid by Columbia, not ESD, and therefore this litigation is not expected to have a material adverse affect on ESD's financial position.

Lower Manhattan Development Corporation

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

The costs of the Project include general and trade contractors, the Corporation's owner's representative, integrity monitoring, environmental review and testing, certain insurance policies, legal fees for transactions and litigation, and land use and environmental compliance. At March 31, 2014, the Corporation had expended on the Project approximately $295 million of the allocated HUD funds, and approximately $106 million of the funds received pursuant to the settlements with Deutsche Bank and its insurance carriers.

During the course of the Project various disputes arose between the Corporation and its general contractor, Bovis Lend Lease LMB, Inc. ("Bovis"). Without being exhaustive, these disputes related to: (i) demands by Bovis for compensation in addition to that provided for in the lump sum payment specified for work under the Deconstruction Contract, dated as of October 20, 2005, which ultimately resulted in a Supplemental Agreement, dated as of February 2007, in which the Corporation agreed to pay certain additional compensation and make advances of certain costs subject to recovery in subsequent litigation; (ii) accidents and

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

safety incidents occurring on the site under Bovis's management; (iii) overall site management; (iv) integrity of invoicing; (v) staffing; and (vi) schedule adherence. In August 2007, a major fire occurred at the site, resulting in the deaths of two New York City firefighters, injuries to numerous other firefighters, substantial damage to the structure, and substantial delays in Project progress.

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

In June 2012, the Corporation and Bovis engaged in a mediation process in an attempt to resolve their disputes. That process did not result in a resolution. In November 2013, the Corporation and Bovis engaged in a second mediation in an attempt to resolve the litigation, but the parties were again unable to reach settlement.

On July 26, 2013, the parties completed fact discovery, and on November 8, 2013, the parties completed expert discovery. On November 15, 2013, Bovis filed a note of issue, thereby indicating the completion of all pretrial discovery. On March 6, 2014, the Corporation filed a motion for summary judgment seeking to dismiss certain of Bovis' claims, as well as a motion for summary judgment in support of certain of the Corporation's affirmative claims against Bovis. On March 6, 2014, Bovis also filed summary-judgment motions to dismiss certain of the Corporation's contractual and gross negligence claims. On June 4, 2014, the parties completed summary-judgment briefing on all motions, and the parties are currently awaiting a ruling by the Court. The Court likely will schedule an oral argument on the summary-judgment motions later this year.

On May 28, 2013, on Bovis' appeal and the Corporation's cross-appeal of the trial court's original rulings on the motion to dismiss, the Appellate Division, First Department, dismissed the majority of Bovis's claims. In October 2013, the First Department denied Bovis' motion for reargument and/or leave to appeal the decision.

Management believes that the Corporation has strong defenses to Bovis's 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 cannot predict the outcome of the litigation with Bovis. An adverse outcome could require the Corporation to seek to allocate additional funds to the Project.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

Various subcontractors on the Project have also asserted claims against the Corporation. After the August 2007 fire, Bovis terminated for cause The John Galt Corporation ("Galt"), one of its subcontractors on the Project. On December 26, 2007, Galt filed The John Galt Corp. v. Bovis Lend Lease LMB, Inc. and Lower Manhattan Development Corp., No. SU-2007-08324 (Sup. Ct. Rockland County) ("Galt I"), an action alleging breach of contract and various business torts, in the New York Supreme Court, Rockland County. The action was transferred and consolidated with a related action, The John Galt Corp. v. Travelers Casualty and Surety Co., et al., No. 603295/07 ("Galt II"), pending in the New York Supreme Court, New York County. By Order dated April 26, 2009, the Court dismissed Galt's claims against LMDC in their entirety. Other defendants, including Bovis and Bovis' sureties ("Sureties"), asserted cross-claims against LMDC. By Order dated January 22, 2010, the Court dismissed in part the Sureties' cross-claims against LMDC. The Sureties' inchoate claim for subrogation is still outstanding, but the Galt II action is currently stayed pending the resolution of the Galt bankruptcy, which was initially filed on July 12, 2012.

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

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

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

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

From time to time in the ordinary course of the Corporation's business, various actions or notices are asserted alleging the Corporation's liability for a variety of matters in Lower Manhattan. The Corporation defends itself against these claims (to the extent asserted in litigation) either through private outside counsel, the New York State Attorney General's Office, or third parties with indemnification obligations. Management believes that no such matters pending on March 31, 2014 will have a material adverse impact on the Corporation's financial condition.

(b) Letters of Credit and Credit Guarantees

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

(c) Construction

The Corporation has contracts in place for construction at several sites, which are in varying states of completion. The total value of contracts outstanding at March 2014 is approximately $408.5 million.

(d) Lease Commitments

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

Minimum lease payments to be paid under the lease agreement for each of the next five fiscal years and thereafter as of March 31, 2014 are as follows (excluding escalations and option period):

2015	$ 6,500,125
2016	6,500,125
2017	6,656,121
2018	6,708,120
2019	6,942,129
Thereafter	30,147,578
TOTAL	$ 63,454,198

Note 21 - Accounting Standards Issued But Not Yet Implemented

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.

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 - Accounting Standards Issued But Not Yet Implemented, Continued

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

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, 2011	$ -	54,064,331	54,064,331	-%	22,114,312	253.5%
April 1, 2012	-	56,957,313	56,957,313	-	22,944,541	248.2%
April 1, 2013	-	69,987,175	69,987,175	-	22,474,730	311.4%

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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

The Board of Directors
New York State Urban Development
Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, which comprise the consolidated statement of net position as of March 31, 2014, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated June 16, 2014.

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.

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Compliance and Other Matters

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

Purpose of this Report

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

Toski & Co., CPAs, P.C.

Williamsville, New York
June 16, 2014

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS
AN EFP ROTENBERG COMPANY

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, 2014.

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, 2014.

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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 16, 2014