NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2016 and 2015

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
New York State Urban Development
Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of and for the years ended March 31, 2016 and 2015, and the related notes to consolidated financial statements, which collectively comprise the Corporation's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2016 and 2015, 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 discussed in note 2(p) to the financial statements, the Corporation adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68," during the year ended March 31, 2016. Our opinion is not modified with respect to these matters.

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 19, the Schedule of Funding Progress - Other Postemployment Benefits - Last Three Years on page 71, the Schedule of Corporation's Proportionate Share of the Net Pension Liability on page 72, and the Schedule of Corporation's Employer Pension Contributions on page 73 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by GASB, 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 13, 2016, 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 13, 2016 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.

EFPR Group, CPAs, PLLC

(Formerly Toski & Co., CPAs, P.C.)

Williamsville, New York
June 13, 2016

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, 2016. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

Economic Development Programs and Initiatives

ESD continued its efforts to foster economic development throughout New York State during fiscal 2016. Its mission is to promote a vigorous and growing state economy, encourage business investment and job creation, and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing and other forms of assistance. To support the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws.

To enhance ESD's business outreach and emphasize local priorities, New York's Regional Economic Development Council ("REDC") initiative was established in 2011, supported by funding via the Regional Council Capital Fund as part of the State's fiscal year budget. Over the past five years, the Regional Council Capital Fund, which is administered by ESD, has made available over $730 million of capital grant funding for the State's REDC initiative, which has, and will continue to, help drive regional and local economic development across New York State in cooperation with ten Regional Economic Development Councils ("Regional Councils"). Regional Council Capital Funds are allocated among the State's ten regions, each represented by a Regional Council, through a process that includes each Regional Council's development and implementation of a five-year strategic plan for its region that sets out a comprehensive vision for economic development and specific strategies to implement that vision. ESD's role in the State's REDC initiative is to administer the Regional Council Capital Fund and any other funding, allocated annually, that is awarded through a competitive Consolidated Funding Application review process.

During fiscal 2016, through the initiative above and other programs, such as the Buffalo Regional Innovation Cluster, the New York Works Program, the Empire State Economic Development Fund, the Economic Development Purposes Fund, the Market NY Program, 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 and Chief Executive Officer ("CEO") approved financial assistance for over 370 companies and organizations. During this period, the $966 million ESD investment approved by the Directors and CEO leveraged an additional $8.8 billion in total investment, resulting in the retention and creation of over 20,000 jobs.

Economic Development Programs and Initiatives, Continued

The Buffalo Regional Innovation Cluster, or Buffalo Billion initiative, was established in fiscal 2013 to attract private sector investment and promote the creation of sustainable jobs in Western New York ("WNY"). To move this initiative forward, the Buffalo Billion Investment Development Plan was published and focused on three sector strategies (advanced manufacturing, health and life sciences and tourism) and three core strategies (entrepreneurship, workforce and smart growth). Within each of the strategies, signature initiatives were developed that would leverage the region's assets and ultimately spur economic development in WNY. The majority of the Buffalo Billion projects are not direct investments in individual companies, but are strategic investments in state assets that will ultimately attract private investment. A few of the current projects are: Buffalo High Tech Manufacturing Innovation Hub at RiverBend; Buffalo Medical Innovation and Commercialization Hub at Buffalo Niagara Medical Campus; Robert Moses Parkway Redevelopment; Western New York Workforce Development Center; 43 North Business Plan Competition; and Better Buffalo Fund.

Over the past five years New York State has helped small businesses secure over $1 billion in loan capital, and provided mentorship, training, and technical assistance to tens of thousands of firms, resulting in the launch of over 10,000 small businesses. Much of that activity is conducted through programs administered by ESD. Initiatives launched over the past several years include the $45 million Innovate NY Seed Stage Equity Investment Fund, the Small Business Revolving Loan Fund, the Surety Bond Assistance Program, and the Bridge to Success working capital loan program. During fiscal 2016, ESD continued Business Mentor NY, the State's first one-on-one pro bono mentoring program geared to help small businesses overcome challenges and spur growth. This program compliments services ESD provides to small businesses by connecting them, and emerging entrepreneurs, to volunteer mentors working in the private sector to help these businesses address specific challenges and realize their full economic potential. Since inception, over 2,800 mentors and entrepreneurs have enrolled and over 1,200 engagements have been initiated. ESD also continued administering the NYS Innovation Venture Capital Fund ("NYSIVCF" or the "Fund") which is currently funded at $100 million. This Fund invests in eligible seed and early stage small businesses located in, or in writing agree to be located in New York State that (i) have the potential to generate additional economic activity in the State and (ii) are working in emerging technology fields or have the potential to achieve technological advances, innovation, transformation or development. NYSIVCF also provides funding for the Technology Commercialization fund-of-funds investment program which supports pre-seed investment opportunities throughout the State. During fiscal 2016, the Fund made three direct equity investments totaling $4.75 million and awarded $5 million to the three Investment Managers as part of the Technology Commercialization Program. ESD continued the MWBE Investment Fund, having selected an investment manager to make equity investments in minority and women-owned business enterprises.

During fiscal 2016, ESD continued to work closely and play a significant advisory role with New York State Homes and Community Renewal ("HCR") and the Governor's Office of Storm Recovery to administer grant and low-interest loan programs for businesses that suffered eligible, uncompensated losses as a direct result of Super Storm Sandy, Hurricane Irene or Tropical Storm

Economic Development Programs and Initiatives, Continued

Lee ("Sandy, Irene and Lee"). Grants ranged from $50,000 to $250,000 to help businesses with replacement of inventory, machinery and equipment, repair of real estate, and provision of needed working capital. Higher grant amounts were available to businesses in the seasonal tourism and fisheries industries and to those that invest in mitigation efforts to prepare for the impacts of future storms. Loans of up to $1 million at a two percent interest rate and seven-year maximum term were provided to businesses that had a need beyond the grant programs.

ESD entered into an inter-agency agreement with HCR to administer the Business Mentor NY program (mentioned above), tourism marketing programs, and a "program marketing" campaign that promoted 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 was comprised of: $3 million for Business Mentor NY; $30 million to oversee the work of an advertising agency to develop and implement an industry-wide advertising and marketing campaign in order to provide immediate support to the State's tourism industry and promote travel to communities; and $7.5 million to oversee the work of an advertising agency to undertake an industry-wide marketing campaign to launch and promote the Small Business Storm Recovery Program.

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

Economic Development Tax Incentives

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

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

In fiscal year 2014, ESD began co-administering the START-UP NY ("SUNY Tax-free Areas to Revitalize and Transform Upstate NY") initiative which is expected to 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. The program continued to build in 2016. START-UP NY attracts start-ups, new business, business expansions and investments from across the nation and around the globe to New York by offering the opportunity to operate completely tax-free, while also partnering with the world-class higher education institutions in the SUNY system, in return for creating net new jobs. Businesses participating in the program need to

Economic Development Tax Incentives, Continued

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. To date approximately seventy-seven (77) campus plans have been approved, of which thirty-seven (37) have approved businesses participating in the program, and approximately one hundred ninety-one (191) businesses have been approved for participation in START-UP NY. These companies have committed to create over four thousand three hundred (4,300) jobs and invest over $240 million dollars over the next five (5) years.

Subsidiaries and Economic Development Projects

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

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office ("Farley") building in fiscal 2007 as a part of the redevelopment of Moynihan Station. $130.0 million of seller's financed debt was obtained directly from the U.S. Postal Service to assist in the acquisition. ESD financed $105.0 million in order to complete the transaction. Funding of $30.0 million was received from the Port Authority of New York and New Jersey (the "Port Authority") and a loan was secured from Citigroup Global Markets, Inc. for $75.0 million for a term of three years. The loan has been refinanced in fiscal 2010, 2013 and, again in fiscal year 2015, at $150 million for two years. Interest continues to be capitalized and ESD made two principal payments of $250,000 each in fiscal 2016. The 2015 financing agreement expires in February 2017. Beside the repayment of the prior loan, current capitalized interest and cost of issuance, ESD borrowed an additional $37.2 million to be used for early action construction for Phase 2 of the project. At March 31, 2016, the remaining combined balance of this debt is $221.7 million.

The current project is a planned relocation of Amtrak's intercity rail operations from existing Pennsylvania Station to a redeveloped Farley building and is being advanced in two distinct phases. Phase I, which is currently underway, and scheduled for completion in September 2016, 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.

In January of 2016, implementation of an initiative for the development of a commuter and intercity passenger railroad terminal to be known as the Empire Station Complex ("Empire Station") was commenced. This initiative includes Phase 2 of the Moynihan Station project and the redevelopment of the Farley Building. In furtherance of the Empire Station initiative, ESD with the MTA, LIRR and Amtrak issued a Joint Solicitation for the Development of the Empire Station Complex. The solicitation consists of (i) a request for expressions of interest and request for qualifications for the private redevelopment of Penn Station and (ii) a request for proposals for the

Subsidiaries and Economic Development Projects, (Continued)

private redevelopment of Farley, including (a) a new Moynihan Train Hall (a new railroad passenger train hall), that would serve LIRR and Amtrak passengers, new back-of-house and passenger facing operations for LIRR and Amtrak, (b) work in the Penn Station train-shed related to the Moynihan Train Hall, and (c) private commercial space, including space leased to USPS for retail and operations use. MSDC is working with ESD, the Federal Railroad Administration, Amtrak, the Port Authority, New York City and the Governor's Office on a final funding plan for Phase 2 so that construction on the train hall can advance in autumn of 2016. The Farley property also has approximately 2.5 million square feet of development rights that can be disposed of in order to fund the construction of the Moynihan Train Hall and associated work in the train-shed.

MSDC continues to engage the services of an events management firm which implemented a comprehensive events marketing strategy for the Farley building. Revenue generated from events held at the Farley building totaled $4.1 million and $2.6 million for the fiscal years ended March 31, 2016 and 2015, respectively.

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESD in 2005 and NYCCDC issued $700.0 million in revenue bonds to fund the expansion and renovation of the Jacob K. Javits Convention Center (the "Javits Center"). The bonds were secured by a hotel unit fee which generated $45.8 million and $46.5 million for the fiscal years ended March 31, 2016 and 2015, respectively. The construction related to the original expansion and renovation of the Javits Center has been completed and the cumulative total cost was $735.2 million at March 31, 2016. Additional information regarding NYCCDC is included in the "Anticipated Future Transactions and Information" section of this report.

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, 2016, more than $3.141 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 Project which consists of plans to redevelop twenty-two acres of underutilized land in downtown Brooklyn. The general project plan adopted in July 2006, and modified in June 2009, includes an arena for the Brooklyn Nets, a reconfigured Vanderbilt yard and subway facility, and sixteen buildings for residential, office, retail uses and potential for a hotel. The residential development will include an affordable component and eight acres of the site are planned for publicly-accessible open space. The developer, Forest City Ratner Companies ("FCR") has completed the arena and in December 2012, broke ground on the first residential tower. In October 2013, FCR entered into an agreement with Shanghai-based Greenland Group Co. to create a joint venture, Greenland Forest City Partners, to acquire and

Subsidiaries and Economic Development Projects (Continued)

develop the Atlantic Yards Project. At its June 27, 2014 meeting, the ESD Board of Directors affirmed the 2014 Modified General Project Plan ("MGPP") and authorized the creation of the Atlantic Yards Community Development Corporation ("AYCDC"), a subsidiary of ESD. The MGPP accelerates development and ensures the timely arrival of key project deliverables for the community and the creation of AYCDC is expected to facilitate continued progress of the project, which the joint venture rebranded as Pacific Park Brooklyn. In August 2015, the ESD Board of Directors approved proposed changes to the design for the Project's eight acres of open space.

Erie Canal Harbor Development Corporation ("ECHDC") continues to be guided by its mission to revitalize Western New York's waterfront and restore economic growth to Buffalo, based on the region's legacy of pride, urban significance and natural beauty. ECHDC has made significant advancements in terms of waterfront development and its goal of working to accomplish public/private partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. Noteworthy accomplishments during fiscal 2016 include: funding over one thousand events and activities at Canalside bringing over one million visitors to Buffalo; continuing work with ESD and NYS Parks on the redevelopment of the outer Harbor lands, including the final portions that were transferred to ECHDC during fiscal 2016; completing construction on the public canal system on the site of the former Memorial Auditorium, which interpret the historic alignment of the original Erie Canal, as it terminated in downtown Buffalo; utilizing the Canals in the winter for skating and other winter events that attracted over seventy thousand skaters; and achieving completion of construction of the lighting display at the Connecting Terminal and the Skyway relative to the grain elevator lighting project.

Also committed to Western New York, USA Niagara Development Corporation ("USAN") continues its mission of dedication to the support and promotion of economic development initiatives in downtown Niagara Falls by leveraging private investment through targeted public investments in start-up capital, key infrastructure improvements, and organizational assistance. The over-arching principle of the development strategy at USAN is simultaneously working on implementation of different types of projects (i.e., phases) with different development cycles, from short-term efforts to large construction projects. This approach has proven to be successful as USAN has completed or substantially completed aspects of approximately thirty-three projects, and is actively working on twelve other efforts in various stages of development, totaling over $544 million. These efforts range from downtown streetscape infrastructure projects to improve the settling for downtown investment to middle-range efforts to reconnect downtown to its waterfront and to begin sensible infill development on shovel-ready downtown sites to leading planning efforts toward developing a new, market-changing feature focused on the unique story of the region-the Niagara Experience Center, a major experimental museum, interpretative center, and most importantly, a portal to cultural attractions throughout all of Buffalo Niagara. USAN has also begun work on a Request For Proposals for new outdoor recreation programming to capitalize on the world-class outdoor recreation assets along Niagara Falls' waterfront.

Subsidiaries and Economic Development Projects (Continued)

Other examples of economic development and redevelopment include Harlem Community Development Corporation ("HCDC"), Queens West Development Corporation ("QWDC"), Fort Schuyler Management Corporation-RiverBend Park, The Research Foundation of SUNY - College for Nanoscale and Science, Fort Schuyler Management Corporation-Athenex, Fort Schuyler Management Corporation-AMRI, New York Genome Center and Central New York HUB for Emerging Nano Industries - Soraa.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2016 and 2015:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2016	2015
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 282,513	366,955
Other current assets	2,861,367	3,145,087
Total current assets	3,143,880	3,512,042
Non-current assets:		
Investment securities - restricted	20,601	19,954
Loans and leases receivable	116,595	124,778
Due from State of New York	10,691,335	9,048,204
Due from Port Authority of New York and New Jersey	103,454	123,612
Due from New York Job Development Authority	26,259	26,233
Capital assets, net	1,919,318	1,841,827
Other assets	223,814	237,698
Total non-current assets	13,101,376	11,422,306
Total assets	16,245,256	14,934,348
Deferred outflows of resources	103,678	94,398
Liabilities		
Current liabilities	1,416,695	1,182,808
Non-current liabilities	12,394,653	11,317,915
Total liabilities	13,811,348	12,500,723
Deferred inflows of resources	377,866	408,001
Minority interest	161,438	166,471
Net position		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	106,218	135,824
Total restricted	303,772	333,378
Net investment in capital assets	1,694,510	1,620,173
Total net position	$ 1,998,282	1,953,551

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

	2016	2015
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
Housing companies	$ 477	15
Nonresidential projects	9,764	11,015
Interest on revenue bonds	38,284	45,586
Hotel tax revenue	45,808	46,453
Reimbursed grants	141,848	141,010
Economic development grants	690,455	395,561
State appropriation for programs	18,352	13,475
Other revenue	92,803	95,273
Total operating revenue	1,037,791	748,388
Operating expenses:		
Interest related to:		
Corporate purpose bonds	-	1,206
Corporate loans	6,291	4,414
Interest on revenue bonds	38,284	45,586
Interest on subsidiary project bonds	31,798	17,346
Reimbursed grants	37,478	41,270
Economic development grants	693,942	397,955
General and administrative	109,633	126,428
Subsidiary program and administrative	30,855	31,067
Pollution remediation	1,709	(569)
Provision for recoveries on loans and leases receivable and investments in other assets	10,921	5,309
Depreciation	36,618	24,907
Total operating expenses	997,529	694,919
Minority interest	5,033	(1,779)
Operating income	45,295	51,690
Non-operating revenue	571,069	472,929
Non-operating expenses	571,528	470,364
Change in net position	44,836	54,255
Net position at beginning of year, as previously stated	1,953,551	1,899,296
Cumulative effect of change in accounting principle	(105)	-
Net position at beginning of year, as restated	1,953,446	1,899,296
Net position at end of year	$ 1,998,282	1,953,551

Subsidiaries and Economic Development Projects (Continued)

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately \$282.5 million and \$367.0 million at March 31, 2016 and 2015, respectively. The decrease is primarily due to the transfer of \$65.0 million received on the final day of fiscal 2015 for economic development projects which was disbursed to grant recipients in fiscal 2016. In addition, the decrease is attributed to the receipt of certain non-recurring payments related to various Corporate and Subsidiary programs and financing fees in the prior fiscal year.

Capitalization

Prior to March 31, 2016, ESD had repaid all its outstanding corporate purpose bond debt obligations. No new corporate purpose debt was issued during fiscal 2016 and 2015. In addition, it had \$12.4 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds to enable it to engage in certain projects relating to financing of State Facilities, economic development activities, housing projects and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In March of 2016, ESD issued \$1,654.9 million in State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A (the "Series 2016A Bonds") for the purpose of refunding certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation, the New York State Housing Finance Agency and the New York State Thruway Authority. In addition, proceeds of the Series 2016A Bonds were used to pay all or part of the cost of issuance of the Series 2016A Bonds.

In December of 2015, ESD issued \$1,130.3 million in State Personal Income Tax Revenue Bonds (General Purpose): \$893.4 million Series 2015A and \$236.9 million Series 2015B (Federally Taxable). The Series 2015A and 2015B bonds (the "Series 2015 Bonds") were issued for the purpose of financing and refinancing Authorized Purposes, including (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects and State facilities projects, and (b) refund certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation and the New York State Housing Finance Agency. In addition, proceeds of the Series 2015 Bonds were used to pay all or part of the cost of issuance of the Series 2015 Bonds.

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

Capitalization (Continued)

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

In August 2015, the New York Convention Center Development Corporation ("NYCCDC") issued $632.1 million Revenue Refunding Bonds (Hotel Unit Fee Secured) Series 2015 for the purpose of (i) refunding NYCCDC's Revenue Bonds (Hotel Unit Fee Secured) Series 2005, (ii) paying certain costs of expanding and renovating the Javits Center, (iii) funding certain reserves and (iv) paying the costs of issuance. These bonds will continue to be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain hotel room rentals located in all five boroughs of New York City.

Interest Rate Transactions

During fiscal 2016 and 2015, there was no new activity with regard to the interest rate swap agreements.

Certain segments of the $1.0 billion interest rate swap agreements in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2011. In May 2010, $175.0 million Citibank and $45.0 million Goldman Sachs swaps were terminated. In August 2008, $125.0 million Morgan Stanley swaps were terminated. In June 2008, $250.0 million Bear Stearns and $205.0 million Goldman Sachs swaps were also terminated. As of March 31, 2016, 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 refunded the 2002B Bonds.

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

The Corporation, in fiscal 2005, entered into additional interest 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.

Interest Rate Transactions (Continued)

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, 2016, the Corporation's outstanding debt had the following ratings from the three major rating agencies. Below are some representative issues:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Facility Service Contract - Refunding 2010B	N/A	AA	AA
Personal Income Tax Revenue Bonds Series 2009 B1	N/A	AAA	AA+
NY Convention Center Revenue Refunding Bonds Series 2015	Aa3	N/A	N/A

Change in Net Position

The change in net position for the year ended March 31, 2016 was $44.8 million compared with $54.3 million in the prior year. The decrease is primarily due to the reclassification of asset balances related to the dissolution of the Harriman Research & Technology Development Corporation Subsidiary.

Revenue

Operating revenue in the 2016 fiscal year approximated $1,037.8 million compared with $748.4 million in fiscal 2015. The net increase of $289.4 million is primarily the result of changes in the following categories:

Increases in operating revenue primarily occurred in the following categories:

- Interest and finance income from housing companies increased by approximately $0.5 million due to an increase in required excess cashflow mortgage receipts.
- Reimbursed grants revenue increased by approximately $0.8 million due primarily to increases in reimbursed revenues and program expenses of $11.1 million for MSDC and the Broadband Program offset by a decrease of $3.8 million in HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs and a decrease of $6.5 million in grant funding to subsidiaries, including ECHDC, due to reduced activity in federal and other funding agreements.
- Economic development grants funding increased by $294.9 million due to an increase in activity within existing grant programs, including the following projects: Fort Schuyler Management-RiverBend Park, NY Genome Center, the Research Foundation of SUNY, Central NY Hub for Emerging Nano Industries and NYULMC Neuroscience Institute.
- State appropriation for programs increased by $4.9 million due to an increase in the amount of new loan Income generated from the economic development loan program.

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income for nonresidential projects decreased by $1.3 million due to the receipt of a required one-time tax equivalency payment in fiscal 2015 for a Roosevelt Island property.
- Interest on revenue bonds decreased by approximately $7.3 million due to the repayment of certain bonds.
- Hotel Tax revenue decreased by approximately $0.6 million as a result of less hotel room rentals in New York City.
- Other revenues decreased by approximately $2.5 million due primarily to an $18.5 million reduction in recognized revenue for the worldwide communication and marketing promotion program, NY Open for Business. This was offset by an increase of approximately $16.0 million in the following revenue categories: activity in the New York Innovation Venture Capital Fund, additional bond fee income from the issuance of refunding bonds by NYCCDC, and a payment in lieu of sales tax related to One Bryant Park.

Revenue, Continued

Non-operating revenue approximated $571.0 million in fiscal 2016 compared to $472.9 million in fiscal 2015. The increase of $98.1 million is due primarily to a gain on the refinancing of debt service obligations related to the State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A and the issuance of new bonds, State Personal Income Tax Revenue Bonds (General Purpose) Series 2015A and 2015B.

Expenses

Operating expenses in the fiscal year ended March 31, 2016 approximated $997.5 million in comparison to $694.9 million in fiscal 2015. The net increase of $302.6 million is primarily the result of changes in the following categories:

Increases in operating expenses primarily occurred in the following categories:

- Interest on corporate purpose bonds and loans increased by a combined total of approximately $0.7 million primarily due to interest expense related to the Farley refinancing.
- Interest on subsidiary project bonds increased by approximately $14.5 million due to the completion of the original renovation and expansion of the Jacob Javits Convention Center and the reclassification of capitalized interest.
- Economic development grants increased by approximately $295.9 million due to the increase in activity within existing grant programs including the following projects: Fort Schuyler Management-RiverBend Park, NY Genome Center, the Research Foundation of SUNY, Central NY Hub for Emerging Nano Industries and NYULMC Neuroscience Institute.
- Pollution remediation expense increased by approximately $2.3 million due primarily to additional remediation activity related to the Episcopal Church Home project in Buffalo.
- Provision for recoveries on loans and leases receivable and investment in other assets increased by approximately $5.6 million due primarily to the recording of expenses associated with the dissolution of the Harriman Research and Technology Development Corporation Subsidiary.
- Depreciation increased by approximately $11.7 million due to the reclassification of certain capitalized accounts to fixed assets related to the completion of the original renovation and expansion of the Jacob Javits Convention Center.

Decreases in operating expenses primarily occurred in the following categories:

- Interest on revenue bonds decreased by approximately $7.3 million due to the repayment of certain bonds.
- Reimbursed grants expense decreased by approximately $3.8 million primarily due to a decrease in HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs.

Expenses, Continued

- General and administrative expenses decreased by approximately $16.8 million due primarily to a reduction in billing activity related to the worldwide communication and marketing promotion program, NY Open for Business.
- Subsidiary program and administrative expenses decreased by approximately $0.2 million due primarily to a reduction in consultant and legal fees at certain subsidiaries, including LMDC.

Non-operating expenses approximated $571.5 million in fiscal 2016 compared to $470.3 million in fiscal 2015. The increase of $101.2 million is due primarily to the issuance of new bonds and the related debt service.

Anticipated Future Transactions and Information

The following are anticipated to effect the Corporation subsequent to March 31, 2016:

- Consistent with a 2009 General Project Plan for the Jacob K. Javits Convention Center, a major renovation of the existing facilities was completed in 2014. That renovation greatly enhanced the existing facilities, but current operations and the ability to compete with the convention center market are challenged by the new neighborhood development and the unavailability of parking for trucks serving the existing facilities. To enable the existing facilities to meet industry standards and accommodate larger events, as well as the truck traffic generated by these events, the expansion of the existing facilities is necessary. In April 2016, the New York State Legislature authorized NYCCDC to use the design-build method of contracting for construction projects related to the expansion of the existing facilities. The new facilities will include: a 480,000 square feet four level on-site marshaling facility, including 27 new loading docks; 92,000 square feet of new prime exhibit space; 107,000 square feet of new state-of-the-art meeting room and ballroom space; 113,000 square feet of pre-function space; a roof terrace accommodating 1,500 people for outdoor events; an expanded green-roof area; and minimum LEED Silver certification. Design and early scope infrastructure work, including sub-surface preparation and the relocation of utilities, will commence in fiscal year 2017, with full scale construction expected to continue through fiscal year 2021. Total expenditures are forecasted to exceed $1 billion and it is anticipated that funding will be provided through a New York State budget appropriation, available bond proceeds and existing cash on hand. Other sources may be provided as required.

Anticipated Future Transactions and Information, Continued

- As part of the fiscal year 2016-17 New York State Budget enacted in April 2016, the Market Order Program (the "Program") administered by New York State Department of Agriculture and Markets ("DAM") was transferred to ESD. Market orders are voluntary programs that are initiated and approved by the industry to ensure the orderly marketing of products. Currently the Program has adopted regulations to enact market orders for milk, apples, sour cherry, cabbage and onions. Combined, these orders generate approximately $15 million in industry funds annually which are used to market and promote the subject products, support market and production research and reimburse administrative costs of the Program. Due to the fact that ESD has a robust marketing and advertising campaign throughout New York, the transfer of the Program to ESD is an attempt to coordinate the State's marketing efforts to now more fully include marketing and promotion of New York State agricultural products. As part of the Program transfer, these existing market orders will remain, but administration of them will be transferred to ESD. DAM will continue to be involved in all aspects of the Program and will provide administrative support to ESD through a contract to be entered into between ESD and DAM. Existing contracts entered into by DAM to promote and research products will be assigned to ESD.
- In April 2016, the Developer of the Atlantic Yard's project, Greenland Forest City Partners, released the housing lottery application for the 181 affordable units on the first residential tower, B2. The building, which will include fifty percent (50%) affordable housing, is expected to open during the fourth quarter of 2016. There are currently four buildings under construction at the site (B2, B3, B11, B14) with two more (B12, B15) anticipated to start construction by the end of the 2016 calendar year.

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, 2016 and 2015

	2016	2015
Assets	(In thousands)	
Current assets:		
Cash and equivalents	$ 65,352	166,935
Temporary investments	217,161	200,020
	282,513	366,955
Cash and investment securities restricted or designated for:		
Revenue bonds	1,815,354	1,897,761
Economic development	368,073	297,246
Subsidiary and other purposes	613,115	630,967
	2,796,542	2,825,974
Loans and leases receivable:		
Non-residential, principally leases	5,000	4,200
Economic development loans	2,929	832
	7,929	5,032
Due from State of New York	-	229,276
Due from Port Authority of New York and New Jersey	26,106	25,604
Other current assets	30,790	59,201
Total current assets	3,143,880	3,512,042
Investment securities restricted or designated for revenue bonds	20,601	19,954
Loans and leases receivable:		
Non-residential, principally leases	16,655	22,369
Economic development loans	99,940	102,409
	116,595	124,778
Due from State of New York	10,691,335	9,048,204
Due from Port Authority of New York and New Jersey	103,454	123,612
Due from New York Job Development Authority	26,259	26,233
Real property and office equipment, net	1,919,318	1,841,827
Other assets	223,814	237,698
Total non-current assets	13,101,376	11,422,306
Total assets	16,245,256	14,934,348
Deferred outflows of resources		
Deferred loss on derivative	97,401	94,398
Deferred loss on refunding	1,337	-
Pensions	613	-
Contributions subsequent to measurement date	4,327	-
Total deferred outflows of resources	103,678	94,398

(Continued)

See accompanying notes to consolidated financial statements.

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

	2016	2015
	(In thousands)	
Liabilities		
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Revenue bonds	$ 872,300	795,595
Project revenue bonds - New York Convention Center Development Corporation	4,015	1,770
Other project revenue bonds	-	293
Other financing	221,667	72,154
	1,097,982	869,812
Accounts payable and accrued expenses	144,163	117,003
Interest payable	79,828	74,692
Repayable to U.S. Department of Housing and Urban Development	10,000	40,000
Other current liabilities	84,722	81,301
Total current liabilities	1,416,695	1,182,808
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Revenue bonds	11,564,970	10,310,319
Project revenue bonds - New York Convention Center Development Corporation	694,711	704,642
Other financing	6,000	155,500
	12,265,681	11,170,461
Repayable to related governmental entities	3,573	3,949
Pollution remediation liability	10,262	19,309
Net pension liability - proportionate share - ERS	2,983	-
Other liabilities	112,154	124,196
Total non-current liabilities	12,394,653	11,317,915
Total liabilities	13,811,348	12,500,723
Commitments and contingencies (note 21)		
Deferred inflows of resources		
Fair market value of derivatives	97,401	94,398
Grants payable	189,824	220,543
Pensions	351	-
Other	90,290	93,060
	377,866	408,001
Minority interest	161,438	166,471
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	106,218	135,824
Total restricted	303,772	333,378
Net investment in capital assets	1,694,510	1,620,173
Total net position	$ 1,998,282	1,953,551

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, 2016 and 2015

	2016	2015
Operating revenue:	(In thousands)	
Interest and finance income from:		
Housing companies	$ 477	15
Nonresidential projects	9,764	11,015
Interest on revenue bonds	38,284	45,586
Hotel tax revenue	45,808	46,453
Reimbursed grants	141,848	141,010
Economic development grants	690,455	395,561
State appropriation for programs	18,352	13,475
Other revenue	92,803	95,273
Total operating revenue	1,037,791	748,388
Operating expenses:		
Interest related to:		
Corporate purpose bonds	-	1,206
Corporate loans	6,291	4,414
Interest on revenue bonds	38,284	45,586
Subsidiary project revenue bonds	31,798	17,346
Reimbursed grants	37,478	41,270
Economic development grants	693,942	397,955
General and administrative	109,633	126,428
Subsidiary program and administrative	30,855	31,067
Pollution remediation	1,709	(569)
Provision for payment on loans and leases receivable and investments in other assets	10,921	5,309
Depreciation	36,618	24,907
Total operating expenses	997,529	694,919
Minority interest	5,033	(1,779)
Operating income	45,295	51,690

(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

	2016	2015
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 567,479	470,978
Interest and finance income earned on investment of revenue bond proceeds	3,441	699
Other investment income, including change in fair value	149	1,252
Total non-operating revenue	571,069	472,929
Non-operating expenses - interest and other costs on revenue bonds	571,528	470,364
Non-operating income (loss)	(459)	2,565
Change in net position	44,836	54,255
Net position at beginning of year, as previously stated	1,953,551	1,899,296
Cumulative effect of change in accounting principle (note 20)	(105)	-
Net position at beginning of year, as restated	1,953,446	1,899,296
Net position at end of year	$ 1,998,282	1,953,551

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2016 and 2015

	2016	2015
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 10,241	11,030
State appropriation received for interest on debt	38,284	45,586
Other operating receipts	92,803	95,273
Cash received from hotel tax revenue	45,755	45,544
Grants received	879,201	366,393
Interest payments on corporate purpose bonds	(21)	(1,381)
Interest payments on revenue bonds	(70,082)	(62,932)
Payments for general and administrative expenses	(110,869)	(268,844)
Grant payments	(768,640)	(338,653)
Payments for pollution remediation	(10,756)	(350)
Net cash provided by (used in) operating activities	105,916	(108,334)
Cash flows from non-capital financing activities:		
Retirement of corporate purpose bonds	-	(45,675)
Retirement of other project revenue bonds	(293)	(329)
Increase in other liabilities	(11,391)	64,532
Net cash provided by (used in) non-capital financing activities	(11,684)	18,528
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	2,785,245	1,296,655
Retirement of revenue bonds	(1,453,889)	(892,012)
Accrued interest payable on revenue bonds	665	(5,555)
Bond payments - New York Convention Center Development Corporation, net of issuing costs	(4,531)	(1,697)
Advances on behalf of State of New York for special projects	(1,413,855)	(560,045)
Proceeds from other financing	(502)	3
Net cash used in capital financing activities	(86,867)	(162,651)
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	12,082,331	21,915,912
Purchase of investment securities	(12,070,687)	(21,506,545)
Investment income, net	(459)	2,565

(Continued)

See accompanying notes to consolidated financial statements.

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

	2016	2015
	(In thousands)	
Cash flows from investing activities, continued:		
Cash payments on behalf of the New York Job Development Authority	$ (26)	(3)
Payments received from projects financed by corporate revenue bonds	4,914	4,210
Payments on economic development loans	(10,925)	(11,583)
Net activity on economic development projects	13	49,371
Investment in real property and office equipment	(114,109)	(124,753)
Net cash provided by (used in) investing activities	(108,948)	329,174
Net increase (decrease) in cash and equivalents	(101,583)	76,717
Cash and equivalents at beginning of year	166,935	90,218
Cash and equivalents at end of year	$ 65,352	166,935
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	45,295	51,690
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	36,618	24,907
Minority interest	(5,033)	1,779
Provision for payment on loans and leases receivable and investments in other assets	10,921	5,309
Cumulative effect of change in accounting principle	(105)	-
Changes in:		
Due from Port Authority of New York and New Jersey	20,158	18,899
Other current assets	28,411	(28,326)
Other assets	13,884	(206,160)
Deferred inflow - pensions	351	-
Accounts payable and accrued expenses	27,160	(117,358)
Grants payable	(30,719)	102,020
Interest payable	(21)	(175)
Repayable to related governmental agencies	(30,000)	40,000
Pollution remediation liability	(9,047)	(919)
Net pension liability	2,983	-
Deferred outflow - pensions	(4,940)	-
Net cash provided by (used in) operating activities	$ 105,916	(108,334)

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 ("NYCCDC") which owns the Jacob Javits Convention Center (the "Javits Center") and leases the facility to the State. In February 2004, ESD took control of NYCCDC.

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

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

(a) Economic Development and Job Creation

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

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development and Job Creation, Continued

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

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary 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 \$35.0 million and \$45.0 million was received and disbursed during the years ended March 31, 2016 and 2015, respectively.

Additionally in 2001, ESD was directly appropriated \$700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately \$2.6 million and \$0.1 million was received and disbursed during the years ended March 31, 2016 and 2015, respectively. As of March 31, 2016, \$0.06 million was returned to HUD from Grantee repayments.

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

(b) State Special Projects

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

(c) Marketing

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

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

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

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

(b) Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

(c) Cash and Equivalents

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

(d) Investment Securities

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

(e) Loans and Leases Receivable

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

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

Note 2 - Summary of Significant Accounting Policies, Continued

(e) Loans and Leases Receivable, Continued

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.

(f) Delinquent Interest

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

(g) Revenue Bonds

Revenue bonds, consisting of many programs, including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities, are issued by ESD at the direction of the State. Most revenue bonds are issued under the Personal Income Tax Resolution for General Purpose. ESD expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses such as bond administrative costs, discounts and advance refunding costs. During fiscal 2016 and 2015, ESD received from the State $1.312 billion and $1.228 billion, respectively.

Amounts received from the State were used to meet principal payments of $734.8 million and $709.2 million in fiscal 2016 and 2015, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2016 and 2015 ESD applied $57.1 million and $20.5 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

During fiscal 2016, at the direction of the New York State Division of the Budget, ESD received $326.0 million in advances for debt service obligations due throughout fiscal 2017 related to certain State supported debt. These funds are currently held with the Trustees and the investment earnings will be applied to future debt service obligations.

(h) 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," as amended by GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities." 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 reported as a deferred outflow of resources or a deferred inflow of resources, and subsequently amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

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

Note 2 - Summary of Significant Accounting Policies, Continued

(h) Bond Defeasances and Refundings, Continued

In August 2015, NYCCDC fully refunded its $700 million Revenue Bonds (Hotel Unit Fee Secured) Series 2005 with the issuance of $632.1 million Revenue Refunding Bonds (Hotel Unit Fee Secured) Series 2015. These bonds will continue to be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

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.

(i) 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, 2016 and 2015, construction costs incurred in the amount of approximately $113.6 million and $123.0 million, respectively were capitalized and included as part of building and improvements.

(j) 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, fees collected from the issuance of bonds, 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, administrative expenses, interest related to corporate loans and revenue bonds, depreciation and pollution remediation costs. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses.

(k) 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 program, project and debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet ESD's obligations for fiscal 2017.

Note 2 - Summary of Significant Accounting Policies, Continued

(l) 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.

(m) 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.

(n) 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.

(o) Deferred Outflows and Inflows of Resources

In the statement of net position, in addition to assets, the Corporation will sometimes report a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has four items that qualify for reporting in this category. The first item is related to pensions. This represents the effect of the net change in the Corporation's proportion of the collective net pension asset or liability and difference during the measurement period between the Corporation's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The second item is the Corporation contributions to the pension system subsequent to the measurement date. The third item is the deferred loss

Note 2 - Summary of Significant Accounting Policies, Continued

(o) Deferred Outflows and Inflows of Resources, Continued

on derivative instruments discussed in note 2(m). The fourth item is the deferred loss on refunding the NYCCDC Revenue Bonds (Hotel Unit Fee Secured) Series 2005 through the issuance of Revenue Refunding (Hotel Unit Fee Secured) Series 2015 Bonds discussed in note 12.

In the statements of net position, in addition to liabilities, the Corporation will sometimes report a separate section of deferred inflows of resources. The separate financial statement element reflects an increase in net position that applies to future periods. The Corporation will not recognize the related revenues until a future event occurs. The Corporation has four types of items that qualify for reporting in this category. The first item is the fair market value of derivative instruments held for the purpose of hedging a specific risk. The second item is in relation to grants receipts collected in advance of the period to be benefitted. The third item is related to pensions and represents the change in the proportion between the Corporation's contributions and the proportionate share of total plan contributions. The fourth item relates to other agreements into which the Corporation has entered that provide receipts in advance of the period to be benefitted and is detailed in note 17.

(p) Accounting and Financial Reporting for Pensions

During the year ended March 31, 2016, the Corporation adopted the provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transitions for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68" (together "the Statements"). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Corporation to report as an asset and/or liability its proportionate share of the collective pension asset and/or liability in the New York State Employees' Retirement System ("ERS"). The implementation of the Statements also requires the Corporation to report a deferred outflow and/or inflow for the effect of the net change in the Corporation's proportionate share of the collective net pension asset and/or liability and difference during the measurement period between the Corporation's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. Also included as deferred outflows are the Corporation's contributions to the pension systems subsequent to the March 31, 2015 measurement date. See notes 19 and 20 for the impact of implementation on the consolidated financial statements.

(q) Subsequent Events

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

Note 3 - Cash and Equivalents

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

At March 31, 2016 and 2015, 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):

	2016		2015	
	Carrying Amount	Bank balance	Carrying amount	Bank balance
Insured (FDIC)	$ 1,379	1,380	1,619	1,619
Uninsured - collateral held by custodian in ESD's name	350,942	350,980	447,650	447,752
Deposits held in trust for the Corporation's benefit	34,090	34,090	18,285	18,285
Total cash and cash equivalents	$ 386,411	386,450	467,554	467,656

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 authorized to do business in New York State which are listed as primary government securities dealers by New York's Federal Reserve Bank, and which are collateralized by U.S. Government securities;
- Commercial paper issued by domestic banks, corporations and financial companies rated "A-1" or better by Standard & Poor's Corporation or "P-1" or better by Moody's Investors Service, Inc.;

Note 4 - Fair Value of Financial Instruments, Continued

- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in ESD's name;
- Certificates of deposit of banks or trust companies authorized to do business in the State;
- Units, shares or interest in a mutual fund or money market fund of regulated investment companies that meet specified criteria; and
- Real property.

Investment securities cost and fair value at March 31, 2016 and 2015 consisted of the following (in thousands):

	2016		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,711,056	2,703,737	(7,319)
Restricted cash	330,567	330,567	-
Total	$ 3,041,623	3,034,304	(7,319)

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

Note 4 - Fair Value of Financial Instruments, Continued

Restricted or designated investment securities held by ESD include cash and equivalents and investment securities amounting to $613.1 million and $631.0 million at March 31, 2016 and 2015, respectively. These amounts at March 31, 2016 and 2015 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2016	2015
Subsidiary/Programs/Purposes:		
42nd Street Development Project	$ 10,822	10,517
New York Empowerment Zone Corporation	11,014	11,496
Queens West Development Corporation	9,832	9,379
Harlem Community Development Corporation	5,638	4,950
Enterprise Community	34	34
USA Niagara Development Corp	12,006	14,190
Lower Manhattan Development Corporation	435	439
New York Convention Center Development Corporation	261,627	251,969
ESD Moynihan Station (James A. Farley Post Office Building)	13,174	15,614
ESD One Bryant Park	7,799	7,739
ESD Columbia SAC	483	11,504
ESD Erie Canal Harbor Development Corporation	23,973	25,706
ESD Privatization Program	819	818
Empire State New Market Corporation	1,533	1,449
ESD OPEB Liability Account	31,228	31,173
ESD Brooklyn Arena Project, ESD Atlantic Yard Project -Phase 1	63,540	63,646
ESD 125 Maiden Lane	261	413
ESD New York	3,067	3,066
ESD Project Repair Program	15,371	15,352
ESD Farley	33,589	55,672
ESD Marriot Marquis Purchase Option Fund	1,399	1,398
ESD TRAIL Remaining Fund	3,495	3,491
ESD Section 32 Remaining Fund	1,337	1,336
ESD Stadium Improvement Project	1,774	9,193
ESD Erie County Stadium Corporation Capital Improvement	2,944	2
ESD 550 Washington Street Project Improvement	-	731
ESD Arthur Kill Development Project	38	917
ESD Bronx Psychiatric Center Development Project	1,419	1,629
ESD Venture Atlantic Yard Project – Phase 2	615	1,916
Public Authority Control Board Authorized (including rent subsidy program in Lower Manhattan)	90,557	70,361
ESD Bayview Correctional Facility Project	823	-
Statewide Local Development Corporation	9	-
Other Purposes	2,460	4,867
Totals	$ 613,115	630,967

Note 5 - Loans and Leases Receivable

Nonresidential lease receivables, commercial lease receivables, real estate investments and economic development loans at March 31, 2016 and 2015 consist of the following (in thousands):

	2016		2015	
	Number	Balance	Number	Balance
Non-residential lease receivables, commercial lease receivables and real estate investments:				
Lease receivables (a)	6	$ 14,533	7	$ 17,581
Commercial leases (b)	4	5,696	4	7,572
Real estate investments (c)	10	1,426	10	1,416
	20	21,655	21	26,569
Economic development loans (d)	88	102,869	106	103,241
Total	108	124,524	127	129,810
Less current portion		(7,929)		(5,032)
Non-current portion		$ 116,595		$ 124,778

(a) Non-residential Lease Receivables

Non-residential lease receivables consist of 6 projects and 7 projects outstanding in 2016 and 2015, respectively, 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, 2016, the remaining lease terms ranged from 1 to 9 years. There are 5 leases with the City of New York ($14.0 million) and 1 with a bank ($0.5 million). At March 31, 2016, minimum lease payments to be received within the next 5 fiscal years total $14.0 million.

(b) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments ("TEP") due to the Corporation pursuant to ground leases on four Roosevelt Island housing projects, which include two non-subsidized, one subsidized, and one cooperative, totaling 2,141 units. Based on the existing TEP agreements, payments continue to the Corporation. The various ground lease terms range from one to fourteen years. The receivable balance of $5.7 million is amortized at an average annual interest rate of 7.5%.

(c) Real Estate Investments

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

Note 5 - Loans and Leases Receivable, Continued

(d) Economic Development Loans

Economic development loans consist of secured, low interest loans made to companies in the State to retain and create jobs. The terms range from 1 to 17 years. The funds to make the loans come from State appropriations which are not repayable. The loans are net of allowance for possible losses of approximately $49.2 million and $49.3 million at March 31, 2016 and 2015, respectively.

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, 2016, annual minimum payments to be received in each of the next five years is approximately $29.2 million per year. The net present value of the receivable balance at March 31, 2016 and 2015 amounted to $129.1 million and $148.7 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 2016 and 2015, the Port Authority made no payments to MSDC. The receivable balance at March 31, 2016 and 2015 amounted to $0.5 million.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2016 and 2015 consists of the following (in thousands):

	2016			
	Balance at March 31, 2015	Additions	Disposals	Balance at March 31, 2016
Land	$ 372,425	-	-	372,425
Buildings, improvements and construction in progress (incl. Farley)	1,563,646	33,842	(2)	1,597,486
Moynihan Station	243,424	79,755	-	323,179
Furniture and equipment	24,115	514	(21)	24,608
	2,203,610	114,111	(23)	2,317,698
Less accumulated depreciation	(361,783)	(36,618)	21	(398,380)
Totals	$ 1,841,827	77,493	(2)	1,919,318

Note 7 - Real Property and Office Equipment, Continued

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

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2016 and 2015 are as follows (in thousands):

	2014	Net increase (decrease)	2015	Net increase (decrease)	2016
New York Convention Center Development Corporation	$ 1,156,279	48,484	1,204,763	12,902	1,217,665
USA Niagara	17,520	288	17,808	190	17,998
James A. Farley Post Office Building and other ESD property	329,760	6,316	336,076	20,750	356,826
Other Subsidiaries	5,630	(631)	4,999	(2)	4,997
Total	$ 1,509,189	54,457	1,563,646	33,840	1,597,486

(b) James A. Farley Post Office Building

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

Note 7 - Real Property and Office Equipment, Continued

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

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

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

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

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

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

In fiscal 2015, the $101.0 million loan was refinanced for an additional term of two years for a total of $150.0 million (including capitalized interest). The $150.0 million loan included new money proceeds of $37.2 million to fund a portion of the costs of the on-going Farley construction project. Interest continues to be capitalized and, in fiscal 2016, 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 NYCCDC 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, NYCCDC 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 consolidated financial statements since it is contingent on the sale of a parcel of land owned by NYCCDC. All amounts incurred in connection with this purchase will be recorded as land.

Note 7 - Real Property and Office Equipment, Continued

(d) Depreciation

Depreciation expense for the years ended March 31, 2016 and 2015 amounted to $36.6 million and $24.9 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2016 and 2015 consist of the following (in thousands):

	2016	2015
Interest receivable	$ (1,513)	(3,876)
Receivable from municipalities, other authorities and others	102,397	157,729
Receivable from HUD - LMDC grant	18,548	6,775
Hotel tax receivable	11,439	11,386
Prepaid insurance	516	590
Reserve for commercial real estate projects	111,312	111,178
Other	11,905	13,117
	254,604	296,899
Less current portion	(30,790)	(59,201)
Non-current portion	$ 223,814	237,698

Note 9 - Postemployment Benefits Other Than Pensions

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

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

Note 9 - Postemployment Benefits Other Than Pensions, Continued

As indicated above, the Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they reach the normal retirement age of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees. Total expenditures charged to operations for the years ended March 31, 2016 and 2015 amounted to $6.7 million and $6.4 million, respectively, of which the Corporation paid $2.2 million and $2.1 million, respectively. At March 31, 2016 and 2015, the liability for postemployment benefits other than pensions amounted to $34.2 million and $29.8 million, respectively.

The number of participants as of March 31, 2016 and 2015 was as follows:

	2016	2015
Active employees	258	281
Retired employees	176	187
Total	434	468

Funding Policy - For the years ended March 31, 2016 and 2015, 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, 2016 and 2015, the Corporation's annual OPEB cost amounted to $6.7 million and $6.4 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2016	2015
Actuarial accrued liability ("AAL"):		
Active employees	$ 39,608	35,140
Retired employees	43,846	39,090
Total	$ 83,454	74,230
Underfunded actuarial accrued liability ("UAAL")	$ 83,454	74,230
Normal cost at beginning of year	$ 2,986	3,129

Level Dollar Amortization

Calculation of ARC under projected Unit Credit Method:

	2016	2015
Amortization of UAAL over 30 years with interest to end of year	$ 3,630	3,229
Normal costs with interest to end of year	3,031	3,167
Annual required contribution ("ARC")	$ 6,661	6,396

Note 9 - Postemployment Benefits Other Than Pensions, Continued

	2016	2015
Annual OPEB Cost Contribution		
Contribution for the year	$ 2,187	2,093
Contribution as a percentage of required contribution	32.8%	32.7%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 6,661	6,396
Contribution made on a pay-as-you-go basis	(2,187)	(2,093)
Increase in net OPEB obligation	4,474	4,303
Net OPEB obligation at beginning of year	29,757	25,454
Net OPEB obligation at end of year	$ 34,231	29,757

Actuarial methods and assumptions:

Funding interest rate	4.5%
Trend rate (medical and drugs)	5.9% declining to 3.9%
Ultimate trend rate (medical and drugs)	3.9%
Year ultimate trend rate realized	2078
Annual payroll growth rate	2.5%
Actuarial cost method	Projected Unit Credit Method
The remaining amortization period at March 31, 2016	21 years

Note 10 - Corporate Purpose Bonds

The Corporation issued 2004A Subordinate Lien Corporate Purpose Bonds in the amount of $81.5 million in April 2004. The bonds were issued to fund economic development projects or programs of the Corporation. In fiscal 2015, ESD redeemed $45.1 million of the Corporate Purpose Subordinate Lien Bonds Series 2004A with funds received primarily from repayment of the Corporation's housing mortgages which secured the corporate purpose bonds. With this repayment ESD eliminated all outstanding corporate purpose bond debt.

No new corporate purpose debt was issued during fiscal 2016 and 2015.

Note 11 - Revenue Bonds

At March 31, 2016 and 2015, ESD's outstanding revenue bonds were as follows (in thousands):

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances 2016	Balances 2015	Coupon rates (%)	Maturity dates
State Facilities and Equipment				
2004 Series A-1	$ -	270	5.00	2016
2004 Series A-2	290,840	300,285	5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2007 Series B	15,815	227,935	5.00	2027
2007 Series C	23,235	231,570	4.00 - 5.00	2027
2009 Series B-1	351,635	369,010	4.00 - 5.25	2038
2009 Series B-2 (Taxable)	29,105	42,350	6.45	2018
Economic Development and Housing				
2005 Series A-1	-	6,230	3.50 - 5.00	2016
2005 Series A-2 (Taxable)	-	8,435	4.73	2016
2007 Series A	3,645	7,145	3.75	2017
2008 Series A-1	122,425	325,150	4.00 - 5.00	2028
2008 Series A-2 (Taxable)	8,065	11,830	4.75 - 4.86	2018
2009 Series A-1	188,935	213,670	5.00	2029
2009 Series A-2 (Taxable)	47,960	62,035	6.50	2019
General Purpose				
2009 Series C	446,600	522,710	3.00 - 5.00	2023
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	283,540	349,495	3.00 - 5.00	2020
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	450,180	469,265	3.50 - 5.00	2041
2011 Series B (Taxable)	87,065	103,580	1.70 - 2.79	2021
2013 Series A-1	572,390	572,390	3.50 - 5.00	2043
2013 Series A-2	66,205	66,205	2.00 - 5.00	2026
2013 Series B (Taxable)	98,315	132,460	0.98 - 1.75	2019

(Continued)

Note 11 - Revenue Bonds, Continued

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
General Purpose	2016	2015	rates (%)	dates
2013 Series C	$ 702,505	728,395	5.00	2033
2013 Series D	449,195	470,330	5.00	2025
2013 Series E	765,455	789,385	5.00	2043
2013 Series F (Taxable)	312,255	354,160	1.00 - 3.45	2023
2014 Series A	909,990	925,835	5.00	2044
2014 Series B (Taxable)	329,605	370,820	1.03 - 3.08	2024
2015 Series A	893,455	-	5.00	2045
2015 Series B (Taxable)	236,860	-	1.04 - 2.17	2021
2016 Series A	1,654,930	-	2.00 - 5.00	2038
Total Personal Income Tax Revenue Bonds	10,628,595	8,949,335		
(b) University Facilities				
Columbia University 1989 Series (Taxable)	17,488	21,474	zero coupon	2020
Cornell University 1989 Series (Taxable)	2,342	2,875	zero coupon	2020
Clarkson University - Loan 1995 Series	3,585	4,370	5.50	2020
Syracuse University - Loan 1995 Series	2,515	4,890	5.50	2017
University Facilities Grants 1995 Series	6,490	7,820	5.50 - 5.88	2021
Total University Facilities Issues	32,420	41,429		
(c) State Office Facilities				
State Office Facilities 1995 Refunding Series	87,535	102,325	5.70	2021
(d) Service Contract Refunding				
2005 Series A	-	79,145	3.75 - 5.00	2019
2005 Series B	-	17,540	4.00 - 5.00	2020
2007 Series A	190,400	206,110	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	412,045	501,520	5.25 - 5.63	2028
2010 Series A	314,295	354,080	4.00 - 5.00	2022

(Continued)

Note 11 - Revenue Bonds, Continued

(d) Service Contract Refunding, Continued	Balances 2016	Balances 2015	Coupon rates (%)	Maturity dates
2010 Series B	$ 4,645	85,605	4.00	2017
2011 Series A	6,675	8,165	2.00 - 4.00	2020
Total Service Contract Refunding	1,688,720	2,012,825		
Total all issues	12,437,270	11,105,914		
Less current portion	(872,300)	(795,595)		
Total non-current revenue bonds	$ 11,564,970	10,310,319		

A summary of changes in outstanding revenue bonds at March 31, 2016 and 2015 is as follows:

	2015	Increases	Decreases	2016
Personal Income Tax Revenue Bonds	$ 8,949,335	2,728,185	(1,048,925)	10,628,595
University Facilities	41,429	-	(9,009)	32,420
State Office Facilities	102,325	-	(14,790)	87,535
Service Contract Refunding	2,012,825	-	(324,105)	1,688,720
Total	$ 11,105,914	2,728,185	(1,396,829)	12,437,270

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, 2016 and 2015 are as follows (in thousands):

	2016	2015
Due from State of New York	$ 10,691,335	9,277,480
Debt service reserve	20,601	19,954
Cash and investments	1,815,354	1,897,761
Less accrued interest payable	(61,188)	(60,523)
Less other	(28,832)	(28,758)
Bonds payable	$ 12,437,270	11,105,914

Note 11 - Revenue Bonds, Continued

New York State Special Project Revenue Bonds - Defeasance

As of March 31, 2016 and 2015, $601.1 million and $92.4 million, respectively, remained outstanding and are considered to be defeased.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A

In March of 2016, ESD issued $1,654.9 million in State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A (the "Series 2016A Bonds") for the purpose of refunding certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation, the New York State Housing Finance Agency and the New York State Thruway Authority. In addition, proceeds of the Series 2016A Bonds were used to pay all or part of the cost of issuance of the Series 2016A Bonds.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2015A & 2015B (Federally Taxable)

In December of 2015, ESD issued $1,130.3 million in State Personal Income Tax Revenue Bonds (General Purpose): $893.4 million Series 2015A and $236.9 million Series 2015B (Federally Taxable). The Series 2015A and 2015B bonds (the "Series 2015 Bonds") were issued for the purpose of financing and refinancing Authorized Purposes, including (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects and State facilities projects, and (b) refund certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation and the New York State Housing Finance Agency. In addition, proceeds of the Series 2015 Bonds were used to pay all or part of the cost of issuance of the Series 2015 Bonds.

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

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

Note 11 - Revenue Bonds, Continued

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2016 are as follows (in thousands):

	Principal	Interest (a)	Total
2017	$ 872,300	556,238	1,428,538
2018	877,870	521,035	1,398,905
2019	893,970	485,111	1,379,081
2020	940,885	447,253	1,388,138
2021	962,105	406,289	1,368,394
	$ 4,547,130	2,415,926	6,963,056

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2021 are approximately $7.9 billion.

Interest Rate Transactions

During fiscal 2016 and 2015, 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, 2016, 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 refunded 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.

Note 11 - Revenue Bonds, Continued

Interest Rate Transactions, Continued

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, NYCCDC a subsidiary of ESD, issued $700.0 million Revenue Bonds (Hotel Unit Fee Secured) Series 2005 (the "Series 2005 Bonds") for the purpose of (a) financing the capital expansion project, which consists of expanding and renovating the Jacob K. Javits Convention Center (the "Javits 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.

In August 2015, NYCCDC issued $632.1 million Revenue Refunding Bonds (Hotel Unit Fee Secured) Series 2015 for the purpose of (a) refunding the Series 2005 Bonds; (b) paying certain costs of expanding and renovating the Javits Center; (c) funding certain reserves; and (d) paying for the cost of issuance. These bonds will continue to be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

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

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

As of March 31, 2016 and 2015, NYCCDC's outstanding Revenue Bonds were as follows (in thousands):

2015 Revenue Bonds	Balances 2016	Balances 2015	Coupon rates (%)	Remaining payments to
Serial (a)	$ 334,920	-	3.00-5.00	2045
Term	121,635	-	5.00	2040
Term	50,285	-	3.50	2045
Term	25,010	-	4.00	2045
Term	100,225	-	5.00	2045
	632,075	-		
Unamortized bond premium	66,651	-		
	$ 698,726	-		

2005 Revenue Bonds	Balances 2016	Balances 2015	Coupon rates (%)	Remaining payments to
Serial	$ -	93,795	4.00-5.00	2027
Term	-	50,930	5.00	2030
Term	-	121,000	5.00	2035
Term	-	357,270	5.00	2044
Term	-	75,000	4.75	2045
	-	697,995		
Unamortized bond premium	-	8,417		
	$ -	706,412		

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

(a) Early redemption options may commence in 2025 at 100%.

Annual principal maturities and interest obligations for the next five years following March 31, 2016 are as follows (in thousands):

	Principal	Interest	Total
2017	$ 4,015	29,596	33,611
2018	10,580	29,436	40,016
2019	10,900	29,118	40,018
2020	11,370	28,646	40,016
2021	11,895	28,124	40,019
	$ 48,760	144,920	193,680

Aggregate principal maturities subsequent to 2021 are approximately $583.3 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, 2016 and 2015 is as follows (in thousands):

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

Note 14 - Other Financing

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

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

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

In February 2015, the third note of $101.0 million was repaid by the issuance of a fourth note for $150.0 million, which included a new money component and required semi-annual payments of interest at a rate of 4.2% per annum and three principal payments of $250,000 over the two-year term that commenced in August 2015. The remaining principal, together with all accrued, but unpaid interest, is due February 2017. ESD made two principal payments of $250,000 each in fiscal 2016.

Note 14 - Other Financing, Continued

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

Note 15 - Pollution Remediation Obligations

In the years ended March 31, 2016 and 2015, the Corporation recognized pollution remediation expense provisions (recoveries) of $1.7 million and ($0.6) 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, 2016 and 2015, the pollution remediation liability totaled $10.3 million and $19.3 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, 2016 and 2015 consist of the following (in thousands):

	2015	Increases	Decreases	2016
Restricted funds for grants, economic development programs and special projects/bonds	$ 126,339	-	(20,017)	106,322
Other loan and revolving loan programs - advances from State	413	-	-	413
Postemployment benefits other than pensions	29,757	4,474	-	34,231
Other accruals	48,988	6,922	-	55,910
Totals	205,497	11,396	(20,017)	196,876
Less current portion	(81,301)			(84,722)
Non-current portion	$ 124,196			112,154

Note 17 - Deferred Inflows of Resources - Other

Deferred inflows of resources - other at March 31, 2016 and March 31, 2015 consist of the following (in thousands):

	2015	Increases	Decreases	2016
Restricted funds for grants, economic development programs and special projects/bonds	$ 10,735	933	-	11,668
Deferred gain on ground lease deposit (a)	1,000	1,483	-	2,483
Other loan and revolving loan programs - advances from State	1,754	-	-	1,754
Other accruals (b)	79,571	-	(5,186)	74,385
Totals	$ 93,060	2,416	(5,186)	90,290

(a) On November 26, 2007 the Harlem Community Development Corporation ("HCDC") entered into a memorandum of understanding ("MOU") with Danforth Development Partners, LLC ("Danforth") for the redevelopment of the Victoria Theater property. At the completion of the redevelopment, HCDC will enter into a ground lease with Danforth, giving Danforth all rights in the property for the term of the lease. To execute the MOU, Danforth made a $1 million non-refundable deposit on the ground lease of the Victoria Theater. Revenue from the deposit will remain deferred until the ground lease is executed. In fiscal 2016, HCDC received approximately $1.5 million in additional advances on this agreement.

(b) The Corporation, through its subsidiary, Erie Canal Harbor Development Corporation ("ECHDC"), entered in a re-licensing agreement ("the agreement") with New York Power Authority ("NYPA"), under which the Corporation will receive annual payments of $4.7 million through the year 2029. The remaining stream of payments as of March 31, 2016 is $61.1 million. The agreement requires ECHDC to submit an annual report to NYPA to show that this stream of payments is being expended in accordance with the agreement. The balance of this payment stream is deferred for specific performance by ECHDC.

Note 18 - Appropriations Repayable Under Prescribed Conditions

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

The appropriations repayable under prescribed conditions originated from the recapitalization of ESD. The State advanced $162.6 million to ESD and $198.1 million to PFA. The PFA obligation was assigned to ESD creating a total amount repayable of $360.7 million. Since 1978, ESD has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2016 and 2015 amounted to $197.6 million.

Note 18 - Appropriations Repayable Under Prescribed Conditions, Continued

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.

Annually, ESD may be required, if and when notified by the State, to provide JDA, with 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 2016 and 2015. No payments are anticipated during 2017.

It is also anticipated that the $26.3 million due from JDA for reimbursement to ESD for administrative expenses incurred on behalf of JDA as of March 31, 2016 ($26.2 million as of March 31, 2015), may also be credited against appropriations repayable under prescribed conditions. ESD has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by ESD on its investment portfolio. The cumulative interest earned, which covers the last twenty-one 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 and Local Employees' Retirement System ("ERS" or the "System") are eligible for this benefit.

Note 19 - Retirement Plans, Continued

(b) State Employees' Retirement System

ESD participates in the System. This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Corporation (the "Corporation"), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Corporation and is the administrative head of the System. The System benefits are established under the provision of the New York State Retirement and Social Security Law. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute. The Corporation also participates in the Public Employees Group Life Insurance Plan, which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/ inex.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12244.

The System is noncontributory except for employees who joined after July 27, 1976, who contribute 3 percent of their salary for the first ten years of membership, and employees who joined on or after January 1, 2010 and before April 1, 2012 who generally contribute 3.0 percent of their salary for their entire length of service. Those joining on or after April 1, 2012 are required to contribute between 3 and 6 percent, dependent on salary, throughout their working careers. The Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the System's fiscal year ending March 31.

Contributions for the current year and two preceding years were equal to 100 percent of the contributions required, and were as follows (in thousands):

	ERS
2016	$ 4,327
2015	4,473
2014	5,217

Note 19 - Retirement Plans, Continued

(c) Pension Liabilities. Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At March 31, 2016, ESD reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. ESD's proportionate share of the net pension liability was based on a projection of its long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by ERS in reports provided to ESD (in thousands).

Actuarial valuation date	3/31/2015	3/31/2014
Net pension liability	$ 2,983	3,989
Corporation's proportion of the Plan's net pension liability	.0882936%	.0882936%

For the year ended March 31, 2016, ESD recognized pension expense of $2.6 million for ERS. At March 31, 2016 ESD's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95	-
Net difference between projected and actual earnings on pension plan investments	518	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	-	351
Corporation's contributions subsequent to the March 31, 2015 measurement date	4,327	-
Total	$ 4,940	351

Note 19 - Retirement Plans, Continued

(c) Pension Liabilities. Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

ESD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2017. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended	ERS
2016	$ 66
2017	66
2018	66
2019	66
2020	-
Thereafter	-

(d) Actuarial Assumptions

The total pension liability as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The significant actuarial assumptions used in the valuations were as follows:

Measurement date	March 31, 2015
Actuarial valuation date	April 1, 2014
Interest rate	7.5%
Salary scale	4.9% Average
Decrement tables	April 1, 2005 - March 31, 2010 System's Experience
Inflation rate	2.7%

Annuitant mortality rates are based on April 1, 2005 - March 31, 2011 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 - March 31, 2010.

Note 19 - Retirement Plans, Continued

(d) Actuarial Assumptions, Continued

The long term rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by each of the target asset allocation percentage and adding expected inflation. Best estimates of the arithmetic real rates of return for each major asset class included in the target asset allocation are summarized below:

Measurement date	March 31, 2015
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Real estate	8.25%
Private equity	11.00%
Absolute return strategies	6.75%
Opportunities portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(e) Discount Rate

The discount rate used to calculate the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(f) Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents ESD's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what ESD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate (in thousands):

	1% Decrease (6.5%)	Current Assumption (7.5%)	1% Increase (8.5%)
Employer's proportionate share of the net pension (asset) liability	$ 19,881	2,983	(11,284)

Note 19 - Retirement Plans, Continued

(g) Pension Plan Fiduciary Net Position

The components of the current-year net pension liability of all participating employers as of the respective valuation dates, were as follows:

	(Dollars in Millions)
Valuation date	3/31/2015
Employers' total pension liability	$(164,592)
Plan net position	161,213
Employers' net pension liability	$ (3,379)
Ratio of plan net position to the Employers' total pension liability	97.95%

(h) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Retirement contributions as of March 31, 2016 and 2015 represent the projected employer contributions for the period of April 1, 2015 through March 31, 2016 and April 1, 2014 through March 31, 2015, respectively, based on paid ERS wages multiplied by the employer's contribution rate, by tier. This amount has been recorded as deferred outflows of resources in the accompanying financial statements.

(i) 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 either the VDC program or the ERS. 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, 2016 and 2015, there were twenty-seven and twenty ESD employees enrolled in the VDC program, respectively.

Note 20 - Cumulative Effect of Change in Accounting Principle

During the year ended March 31, 2016, the Corporation implemented GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The implementation of these statements resulted in the reporting of deferred outflows of resources and a liability related to ESD's participation in ERS. ESD's net position at April 1, 2015 has been restated as follows:

Net position at beginning of year, as previously stated	$ 1,953,551
GASB Statement No. 68 implementation:	
Beginning System liability - Employees' Retirement System as of March 31, 2015	3,989
Beginning deferred outflow of resources resulting from:	
Differences between expected and actual experience	
Contributions subsequent to the measurement date	(3,884)
Cumulative effect of implementation	105
Net position at beginning of year, as restated	$ 1,953,446

Note 21 - Commitments and Contingencies

Commitments and contingencies at March 31, 2016 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.

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

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 million. ECHDC received numerous Notices of Claim from the contractor under this contract, related to various aspects of the contract scope and performance requirements. Effective July of 2013, ECHDC terminated the contractor due to the contractor's failure to properly perform under the terms of the contract. The work has been completed by the bonding company. The contractor has brought multiple actions in State and federal court challenging the termination and seeking an undisclosed amount of monetary relief as a result of the termination and its claims for additional work under the terms of the contract. Since the original lawsuit was commenced, the bonding company has intervened in the State lawsuits and raised additional claims for work completed after termination of the contractor. The action is currently in the discovery phase with a trial date set for May of 2017.

Of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including ESD. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County, Hon. Vito M. DeStefano, JSC), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately $20 million for the alleged negligent design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. The County asserts causes of action against ESD, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project contractors for negligence, breach of contract, negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, ESD agreed to indemnify DASNY from project-related liabilities. ESD and DASNY are being defended in this lawsuit by the Office of the New York State Attorney General. ESD and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. Discovery proceedings are continuing. To date, settlement discussions and mediation efforts have resolved four of the six causes of action against ESD. Two of the four resolved causes of action relate to the return of unspent county funds, which ESD has released to the County; the other two are tort claims, which the County has agreed to discontinue with prejudice.

ESD has moved to dismiss the remaining two causes of action, for breach of contract, on legal grounds. By decision and order dated March 30, 2015, Justice DeStefano issued a Decision and Order dismissing the County's claim against ESD. However, the Judge declined to dismiss plaintiff's breach of contract claim against DASNY. Under its agreement with DASNY, ESD is

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

bound to indemnify DASNY against all liability and costs, so effectively the action could still result in payment by ESD. DASNY and ESD have appealed the decision on DASNY's potential liability seeking to have that decision overturned by the Appellate Division, Second Department. In the meantime, discovery in the trial court continues. No prediction can be made as to when a decision on the appeal may be rendered and no assessment can be made of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss.

On May 27, 2015, a settlement agreement was reached in Vinson v. HCDC, 14-CV-4068, an employment case pending in the Southern District of NY. The case involved four former employees of ESD, parent of Harlem Community Development Corporation ("HCDC"). Plaintiffs alleged that they were discriminated against by HCDC, where they worked, on the basis of their national origin. All four plaintiffs had previously filed EEOC charges in March 2013, all of which were dismissed. The settlement, which is not an admission of liability in the case, provided for a total payment of $325 thousand for all four plaintiffs, inclusive of plaintiffs' legal fees, subject to approval by ESD's directors. The settlement was approved by ESD in June 2015. The settlement amount, and all of ESD's associated fees and costs, were covered by insurance maintained by ESD, subject to a $100 thousand deductible. The full amount of the deductible was paid during the year ended March 31, 2016.

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

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

ESD subsidiary Brooklyn Bridge Park Development Corporation ("BBPDC") is one of a number of respondents in a lawsuit seeking judicial review of City and State approval of the building of a hotel and condominium at Pier 1, Brooklyn Bridge Park. BBPDC owns the land, which is rented under a 99-year ground lease to a NYC not-for-profit corporation that manages the Park. Local residents complain that the City and State entities allowed the hotel developer to build a taller structure than was allowed, blocking their views. By Decision and Order dated June 12, 2015, Supreme Court, Kings County (Justice Knipel) dismissed the Article 78 proceeding case and vacated all interim injunctions, finding that: (i) petitioners had delayed commencing the litigation well beyond the 4-month statute of limitation for an Article 78 proceeding; and (ii) that, even if the action was timely, the buildings in question complied with the height limits set out in ESD's Modified General Project Plan. Petitioners have appealed this well-reasoned decision, and the appeal is fully briefed before the Second Department, which has not yet set a date for oral argument. As a practical matter the case is probably over, since the Appellate Division would likely not grant a pre-appeal temporary injunction barring further construction.

A second Article 78 petition was filed by a different petitioner, the Brooklyn Heights Association, arguing that the Pier 1 hotel as built violated a restricted and protected scenic view-plane from the Brooklyn Heights Promenade. ESD/BBPDC and the City moved to dismiss the petition in Kings County Supreme Court. The motion is pending.

Atlantic Yards Land Use Improvement and Civic Project

With respect to the Atlantic Yards Land Use Improvement and Civic Project (the "Project"), located in Brooklyn, New York, ESD has exercised its powers under the New York State Eminent Domain (condemnation) Procedure Law in two proceedings.

ESD filed its first condemnation petition in December 2009 to obtain title to certain private Phase I properties needed for the Project; ESD took title to such properties pursuant to Court order in March 2010; and ESD obtained vacant possession of such properties in May 2010. There are two remaining issues in this proceeding: (a) the pending appeal of a fee award and; (b) valuation of the last of the condemned properties. The pending appeal relates to a 2014 decision wherein the Court held that there was a reasonable probability that the property, vacant land on Atlantic Avenue, would be upzoned and redeveloped with a hotel. The Court valued the property using the sales comparison approach and adjusted four of the claimant's land sales to arrive at a value. The Court's decision on this matter was appealed and that appeal is pending. The trial of a former four-story building, the last of the condemned properties referred to in (b) above, will commence subsequent to March 31, 2016.

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Land Use Improvement and Civic Project, Continued

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

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

There are currently no pending litigations challenging Project approvals.

Columbia University Manhattanville Project

In January 2012, ESD commenced proceedings under the New York State Eminent Domain (condemnation) Procedure Law to acquire property necessary for Phase I of this Project. In cooperation with The City of New York, ESD condemned various street interests and conveyed same to Columbia. In March 2012, ESD took title, by condemnation, to five private fee parcels (two gas stations and three self-storage facilities). All such parcels were vacated and transferred to Columbia for use in the Project by November 2012. Compensation for all five parcels have now been settled and paid, and no claims remain outstanding. Pursuant to the Project contract, all condemnation awards were paid by Columbia, not ESD.

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.

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

The costs of the Project include general and trade contractors, the Corporation's owner's representative, integrity monitoring, environmental review and testing, certain insurance policies, legal fees for transactions and litigation, and land use and environmental compliance. At March 31, 2015, the Corporation had expended on the Project approximately $ 257 million of the allocated HUD funds, net of the $40 million in recoveries from the settlement agreement described below, 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 safety incidents occurring on the site under Bovis's management; (iii) overall site management; (iv) integrity of invoicing; (v) staffing; and (vi) schedule adherence. In August 2007, a major fire occurred at the site, resulting in the deaths of two New York City firefighters, injuries to numerous other firefighters, substantial damage to the structure, and substantial delays in Project progress.

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

On May 8, 2015 LMDC and Bovis executed a final settlement agreement and release in this matter. The terms of the settlement require Bovis to pay LMDC a total of $40 million in three installments by June 30, 2016. In addition, Bovis agreed to release over $10 million in outstanding payments LMDC had not yet made in connection with Bovis's work on the project. Following the execution of the settlement LMDC's and Bovis' jointly filed a motion for voluntary discontinuance with prejudice to dismiss LMDC from the action.

Various subcontractors on the Project have also asserted claims against the Corporation. After the August 2007 fire, Bovis terminated for cause The John Galt Corporation ("Galt"), one of its subcontractors on the Project. On December 26, 2007, Galt filed *The John Galt Corp. v. Bovis Lend Lease LMB, Inc. and Lower Manhattan Development Corp.*, No. SU-2007-08324 (Sup. Ct.

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

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 was stayed pending the resolution of the Galt bankruptcy, which was initially filed on July 12, 2012 and finalized on September 12, 2014. After the court rules on its motion to dismiss LMDC from the main Bovis action, LMDC plans to file a stipulation of discontinuance to formally dismiss the Galt Actions as well.

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

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

From time to time in the ordinary course of the Corporation's business, various actions or notices are asserted alleging the Corporation's liability for a variety of matters in Lower Manhattan. The Corporation defends itself against these claims (to the extent asserted in litigation) either through private outside counsel, the New York State Attorney General's Office, or third parties with indemnification obligations. Management believes that no such matters pending on March 31, 2016 will have a material adverse impact on the Corporation's financial condition.

Contingencies related to Lower Manhattan Development Corporation at March 31, 2016 consist of the following:

Note 21 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

Grants

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

(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 2016 is approximately $272.5 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, 2016 are as follows (excluding escalations and option period) (in thousands):

Note 21 - Commitments and Contingencies, Continued

2017	$ 6,656
2018	6,708
2019	6,942
2020	7,020
2021	7,098
Thereafter	16,029
TOTAL	$ 50,453

Note 22 - Accounting Standards Issued But Not Yet Implemented

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

GASB Statement No. 73 - "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68." This Statement, issued in June 2015, establishes requirements for defined benefit pension plans and defined contribution pension plans that are not within the scope of Statement No. 68, Accounting and Financial Reporting for Pensions, as well as requirements for the assets accumulated for purposes of providing those pensions. The requirements of this Statement for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016. Requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions as well as the requirements for pension plans within the scope of Statements 67 and 68 are effective for fiscal years beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 74 - "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans." This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for postemployment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

Note 22 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning April 1, 2018 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 76 - "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments." This Statement, issued in June 2015, supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, and reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements for this Statement are effective for financial statements for periods beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. This Statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 77 - "Tax Abatement Disclosures." This Statement, issued in August 2015, requires governments that enter into tax abatement agreements to disclose taxes abated, the gross amount of such taxes abated during the period and any other commitments made by the government other than to abate taxes, as a part of the abatement agreement. The requirements for this Statement are effective for financial statements for periods beginning after December 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 78 - "Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans." This Statement, issued in December 2015 amends GASB Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described

Note 22 - Accounting Standards Issued But Not Yet Implemented, Continued

above. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 79 - "Certain External Investment Pools and Pool Participants." This Statement, issued in December 2015, addresses the accounting and financial reporting for certain external investment pools and pool participants. It establishes the criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. For the Corporation, this statement becomes effective for the fiscal year beginning April 1, 2016. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends the blending requirements for the financial statement presentation of component units of all state and local governments. It requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. This Statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016. For the Corporation, this statement becomes effective for the fiscal year beginning April 1, 2017. This Statement is being evaluated for its effect on the consolidated financial statements of the Corporation.

Note 22 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning April 1, 2018 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of the Corporation.

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

	Actuarial		Unfunded			Unfunded
Valuation Date	Value of Assets	Accrued Liability	Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Liability as a Percentage of Covered Payroll
April 1, 2013	$ -	69,987,175	69,987,175	-	22,474,730	311.4%
April 1, 2014	-	74,230,439	74,230,439	-	23,312,392	318.4%
April 1, 2015	-	83,453,951	83,453,951	-	25,039,418	333.3%

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Corporation's Proportionate Share of the Net Pension Liability
Year ended March 31, 2016

NYSERS Pension Plan (in thousands)

	2016	2015
Corporation's proportion of the net pension liability	0.0882936%	0.0882936%
Corporation's proportionate share of the net pension liability	$ 2,983	$ 3,989
Corporation's covered payroll	$ 25,039	$ 23,312
Corporation's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	11.91%	17.11%
Plan fiduciary net position as a percentage of the total pension liability	97.95%	97.95%

The amounts presented for each fiscal year were determined as of the March 31, 2016 and 2015 measurement dates of the plans.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Corporation's Employer Pension Contributions
Year ended March 31, 2016

NYSERS Pension Plan (in thousands)

	2016	2015	2014	2013	2012
Contractually required contribution	$ 4,327	4,473	5,217	4,328	3,356
Contributions in relation to the contractually required contribution	4,327	4,473	5,217	4,328	3,356
Contribution deficiency (excess)	$ -	-	-	-	-
Corporation's covered employee payroll	$ 25,039	23,312	22,300	21,943	22,114
Contributions as a percentage of covered employee payroll	17.28%	19.19%	23.39%	19.72%	15.18%

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

The Board of Directors
New York State Urban Development
Corporation:

We have audited, in accordance with 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, 2016, 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 13, 2016.

Internal Control Over Financial Reporting

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

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

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

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.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 13, 2016

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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
New York State Urban Development
Corporation:

Report on Investment Program Compliance

We have audited the New York State Urban Development Corporation and Subsidiaries' (the "Corporation"), a component unit of the State of New York, compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the year ended March 31, 2016.

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, 2016.

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.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 13, 2016