

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Financial Statements  
And Independent Auditors' Report  
March 31, 2011 and 2010

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 and Subsidiaries:

We have audited the accompanying consolidated balance sheets of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of March 31, 2011 and 2010, and the related consolidated statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 3, 2011, on our consideration of New York State Urban Development Corporation and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, grants 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's discussion and analysis as presented on pages 3 to 14 is not a required part of the basic consolidated financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Williamsville, New York  
June 3, 2011

NEW YORK STATE URBAN DEVELOPMENT  
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Management's Discussion and Analysis

March 31, 2011 and 2010

Our discussion and analysis of New York State Urban Development Corporation and Subsidiaries' ("UDC" or the "Corporation") financial performance provides an overview of the Corporation's financial activities for the fiscal period ended March 31, 2011. Please read it in conjunction with the Corporation's consolidated financial statements.

**Overview**

The New York State Urban Development Corporation, doing business as Empire State Development ("ESD") continued its efforts to promote economic development throughout the State during fiscal 2011. The Corporation's mission is to promote business investment and growth that leads to job creation and prosperous communities across the State. To assist the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws.

During fiscal 2011, through programs such as the Empire State Economic Development Fund, the Upstate Regional Blueprint Fund and the Downtown Revitalization Fund, which promote the economic development and health of New York State by facilitating the creation or retention of jobs or increased business activity, ESD provided assistance (grants, loans, technical assistance, and/or problem-solving) to 265 companies and organizations. During this period, the \$2.75 billion capital investment made in New York State leveraged more than \$1.3 billion in private funds, resulting in the retention of nearly 12,000 jobs and the creation of more than 5,000 jobs.

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

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESD in 2005 and NYCCDC issued \$700 million in revenue bonds to fund the expansion and renovation of the Jacob K. Javits Convention Center. The bonds were secured by a hotel unit fee which generated \$39.3 million and \$33.2 million for the fiscal years ended March 31, 2011 and 2010, respectively. In fiscal 2009, NYCCDC embarked upon a multi-year \$463 million renovation and expansion of the Javits Convention Center. In June 2010, the \$38.75 million expansion was completed and the new structure has been well received by the convention industry and is marketable to a new customer base. Construction on the renovation started in July

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Management's Discussion and Analysis, Continued

2010 and includes, among other improvements, replacement of the exterior curtainwall, the roof and heating and cooling system. The roof will be the largest green roof on the eastern seaboard and will achieve LEED silver status. The renovation is expected to be completed in 2013.

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office building in fiscal 2007 as a part of the redevelopment of Moynihan Station. ESD financed \$105 million in order to complete the transaction. Funding of \$30 million was received from the Port Authority of New York and New Jersey and a loan was secured from Citigroup Global Markets, Inc. for \$75 million for a term of three years, which was refinanced in fiscal 2010 for an additional three years for \$91.8 million and includes the capitalized interest. In addition, \$130 million of seller's financed debt was obtained directly from the U.S. Postal Service to assist in completing the acquisition. At March 31, 2011, the remaining combined balance of this debt is \$146.8 million. Both of the financing agreements expire in 2013. The project has been broken into phases. Phase I, which is currently under design and fully funded, will address the needed underground transportation improvements which are required to create the new Moynihan Station in the Farley Building. MSDC and Amtrak have entered into a Memorandum of Understanding for Amtrak to locate its intercity train station in the new Moynihan Station in the Farley Building. Construction of Phase 2 is dependent upon identification of funding and need not await the completion of Phase I work.

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 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, 2011, more than \$2.793 billion of the total \$3.483 billion in funding has been disbursed by both ESD and LMDC to qualified businesses and individuals.

Erie Canal Harbor Development Corporation ("ECHDC") is guided by its mission to revitalize Western New York's waterfront and restore economic growth to Buffalo. It is working through a public/private partnership that will result in the investment of \$300 million in Buffalo's waterfront district. Some highlights during fiscal 2011 include: the completion of the \$53 million harbor redevelopment project which revitalized 12.5 acres of idle waterfront space into a contemporary downtown tourist destination; creation of a shovel ready site on the Memorial Auditorium Block; and remediation of the Donovan Office Building, paving the way for its eventual re-use.

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Management's Discussion and Analysis, Continued

The groundbreaking for the Barclays Center at the Atlantic Yards site took place in March 2010 and during fiscal 2011 work at the construction site has increased significantly. In addition to work occurring at the arena site, the developer is also constructing a new subway entrance at the tip of the arena. In addition, construction has begun on aspects of the permanent rail yard which are necessary to re-construct the Carlton Avenue Bridge. These will be completed before the arena opens in September 2012.

Other examples of redevelopment include 42<sup>nd</sup> Street Development, Harriman Research and Technology Development, Queens West Development, USA Niagara Development, Midtown Plaza/PAETEC, Columbia University Educational Mixed-Use Development Land-Use Improvement and Civic Project, Global Foundries/AMD, Aqueduct Video Lottery Gaming Facility, Fuller Road and Research Foundation of SUNY (Sematech).

ESD's mission, when created in 1968, was to build affordable housing in New York State. Although the Corporation has built no new projects since the mid-1970's it still services mortgages on 52 housing projects and realized revenues from Federal subsidies and repayments from the owners of the projects.

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Management's Discussion and Analysis, Continued

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2011 and 2010:

SUMMARY OF CONSOLIDATED BALANCE SHEETS

<u>Assets</u>	<u>2011</u>	<u>2010</u>
	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	\$ 157,104	143,536
Other current assets	<u>3,129,088</u>	<u>3,457,961</u>
Total current assets	<u>3,286,192</u>	<u>3,601,497</u>
Non-current assets:		
Investment securities - restricted	268,005	293,868
Loans and leases receivable	389,432	403,947
Due from State of New York	7,265,038	6,479,902
Due from Port Authority of New York and New Jersey	202,883	208,921
Due from New York Job Development Authority	25,896	25,186
Capital assets, net	1,255,399	1,302,552
Other assets	<u>119,933</u>	<u>116,271</u>
Total non-current assets	<u>9,526,586</u>	<u>8,830,647</u>
Total assets	<u>\$ 12,812,778</u>	<u>12,432,144</u>
<u>Liabilities and Net Assets</u>		
Current liabilities	1,152,165	1,154,811
Non-current liabilities	<u>9,689,136</u>	<u>9,080,073</u>
Total liabilities	<u>10,841,301</u>	<u>10,234,884</u>
Minority interest	<u>134,137</u>	<u>124,845</u>
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	<u>545,555</u>	<u>719,139</u>
Total restricted	743,109	916,693
Invested in capital assets, net of related debt	<u>1,094,231</u>	<u>1,155,722</u>
Total net assets	<u>1,837,340</u>	<u>2,072,415</u>
Total liabilities and net assets	<u>\$ 12,812,778</u>	<u>12,432,144</u>

NEW YORK STATE URBAN DEVELOPMENT  
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Management's Discussion and Analysis, Continued

SUMMARY OF STATEMENTS OF REVENUE,  
EXPENSES AND CHANGES IN NET ASSETS

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	\$ 12,519	14,063
Housing companies	11,499	13,201
Nonresidential projects	8,493	14,800
Interest on revenue bonds	75,765	84,015
Hotel tax revenue	39,309	33,258
Reimbursed grants	272,153	442,755
Economic development grants	786,952	438,304
State appropriation for programs	13,378	17,907
Other revenue	59,695	127,805
Total operating revenue	<u>1,279,763</u>	<u>1,186,108</u>
Operating expenses:		
Interest related to:		
Corporate purpose bonds	10,479	13,527
Corporate loan	5,395	4,221
Interest on revenue bonds	75,765	84,015
Reimbursed grants	155,714	284,074
Economic development grants	790,788	424,524
General and administrative	127,965	57,480
Subsidiary program and administrative	332,735	72,669
Pollution remediation	377	12,629
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,070)	(4,066)
Depreciation	12,484	12,947
Total operating expenses	<u>1,507,632</u>	<u>962,020</u>
Minority interest	<u>(9,292)</u>	<u>(7,250)</u>
Operating income (loss)	(237,161)	216,838
Non-operating revenue	354,851	292,628
Non-operating expenses	<u>(352,765)</u>	<u>(287,730)</u>
Excess (deficiency) of revenue over expenses	(235,075)	221,736
Net assets at beginning of year	<u>2,072,415</u>	<u>1,850,679</u>
Net assets at end of year	<u>\$ 1,837,340</u>	<u>2,072,415</u>

NEW YORK STATE URBAN DEVELOPMENT  
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Management's Discussion and Analysis, Continued

**Liquidity**

The Corporation's cash, cash equivalents and temporary investments totaled approximately \$157.1 million and \$143.5 million at March 31, 2011 and March 31, 2010, respectively. The increase is primarily due to the receipt of certain non-recurring payments related to various subsidiary programs, economic development projects and financing fees.

**Capitalization**

As of March 31, 2011, UDC had \$161 million, net of unamortized premium, in corporate purpose debt outstanding. No new corporate purpose debt was issued during fiscal year 2011. In addition, it had \$9.1 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds to enable it to engage in certain projects relating to financing of State Facilities, economic development activities, certain housing assistance projects and programs and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In December of fiscal 2011, UDC issued \$1.109 billion State Personal Income Tax Revenue Bonds (General Purpose), \$367.3 million Series 2010A, \$328.4 million Series 2010B (Federally Taxable) and \$413.8 million Series 2010C (Federally Taxable-Build America). The Series 2010A Bonds were issued to finance capital projects and equipment purchases for State departments, agencies and the City University of New York, economic development projects throughout the State, including the equipping of an international computer chip research and development center, and economic development grants under various programs, including but not limited to: the Capital Projects Fund, the Downstate Revitalization Fund, Economic and Community Development Projects, the Empire State Economic Development Fund, the New York State Economic Development Assistance Program, Upstate City-by-City initiatives, Luther Forest infrastructure, and the Upstate Regional Blueprint Fund, as well as other individual projects. The Series 2010B Bonds were issued to finance capital projects to redevelop Governors Island, economic development loans and grants under the Upstate Agricultural Economic Development Fund, the expansion and equipping of a computer chip research and development center at the State University of New York at Albany, and the construction of a video lottery facility and related improvements at the State-owned Aqueduct Racetrack in Queens. The Series 2010C Bonds were issued to finance the development of an international computer chip research and development center and capital projects with respect to facilities and other property owned and operated by various agencies of the State including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Division of Military and Naval Affairs, the New York State Office of Court Administration, and the New York State Office of Homeland Security. Additionally, the proceeds were used to pay the cost of issuance of the Series 2010 Bonds.

NEW YORK STATE URBAN DEVELOPMENT  
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Management's Discussion and Analysis, Continued

In December of fiscal 2010, UDC issued \$1.472 billion State Personal Income Tax Revenue Bonds (General Purpose), \$672.7 million Series 2009C, \$223.2 million Series 2009D (Federally Taxable) and \$576.1 million Series 2009E (Federally Taxable - Build America). The Series 2009 Bonds were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of the costs of a Project, consisting of the financing and reimbursing of the costs of (i) State facilities projects including correctional facilities, youth facilities, court facilities, State police facilities, the provisions of grants to local governmental entities for various purposes, and equipment purchases for State departments and agencies, units of the State University of New York and City University of New York and the unified court system, (ii) economic development projects throughout New York State, including the development and/or expansion of an international computer chip research and development center, design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure, the reimbursement of the State for money heretofore advanced by it, the provision of grants and subsidies of State funds toward the construction of certain infrastructure for economic development projects and certain housing assistance projects and programs, and (iii) certain other projects and programs supported by State funds, and (b) to pay the costs of issuance of the Series 2009 Bonds incurred by the Corporation.

UDC refunded revenue bonds during fiscal year 2011 using the proceeds and net original premium of the issuance of Service Contract Revenue Refunding bonds as follows: in June 2010, refunded \$220 million of Service Contract Revenue Bonds Series 2008A-2, A-3 and A-4 using the proceeds of the issuance of the Service Contract Refunding Series 2010A-1 and A-2; in October 2010, refunded \$514.4 million of Correctional and Youth Facilities Service Contract Revenue Bonds Series 2002A and C using the proceeds of the issuance of the Service Contract Revenue Refunding Series 2010B.

In fiscal 2011, UDC redeemed \$27.5 million of Corporate Purpose Senior Lien Bond Series 1996 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

In fiscal 2010, UDC redeemed \$41.7 million of Corporate Purpose Senior Lien Bond Series 1996 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

Also outstanding as of March 31, 2011 is \$699.8 million in revenue bonds issued by the New York Convention Center Development Corporation in November 2005.

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Management's Discussion and Analysis, Continued

**Interest Rate Transactions**

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 million Citibank and \$45 million Goldman Sachs swaps were terminated. Previous to that, in August 2008, \$125 million Morgan Stanley swaps were terminated and in June 2008, \$250 million Bear Stearns and \$205 million Goldman Sachs swaps were also terminated. As of March 31, 2011, the total amount of swap terminations related to the original 2002B Bonds was \$800 million. The remaining \$200 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

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

The Corporation, in fiscal 2005, entered into additional interest 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. Under the Series 2004A-3, 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%.

The remaining \$224 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. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

In fiscal 2010, the remaining \$1.7 million interest rate swap agreement in connection with State Personal Income Tax Revenue Bonds 2004-A4 (State Facilities and Equipment) expired following the March 15, 2010 maturity and amortization of the underlying bond issue.

The fair value of the swaps is recorded as a receivable from or a payable to the State.

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Management's Discussion and Analysis, Continued

**Investment Ratings**

As of March 31, 2011, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

<u>Issue</u>	<u>Underlying Ratings</u>		
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
Correctional Capital Facility Revenue Bonds Series 98 Refunding	N/A	AA-	AA-
Correctional Facility Service Contract - Series D	N/A	AA-	AA-
Personal Income Tax Revenue Bonds Series 2003 A1	N/A	AAA	AA
Corporate Purpose Subordinate Lien 1996	A2	A	A
Corporate Purpose Senior Lien 2001	Aaa	AAA	AAA
NY Convention Center Revenue Bonds Series 2005	A1	N/A	N/A

**Excess (Deficiency) of Revenue over Expenses**

The excess (deficiency) of revenue over expenses for the year ended March 31, 2011 was (\$235.1) million compared with \$221.7 million in the prior year. This is primarily due to the transfer of Brooklyn Bridge Park Development Corporation and Governors Island Preservation and Education Corporation to a newly created New York City-controlled entity which resulted in the reclassification of these assets to expense.

**Revenue**

Operating revenue in the 2011 fiscal year approximated \$1.280 billion compared with \$1.186 billion in fiscal 2010.

Increases in operating revenue primarily occurred in the following categories:

- Hotel tax revenue increased by approximately \$6.0 million as a result of increased travel to New York State largely from international destinations whose currency has increased in value in the U.S.
- Economic development grants funding increased by approximately \$348.6 million due to an increase in activity within existing and new grant programs, including projects with Research Foundation of SUNY (Sematech), Fuller Road, and Global Foundries/AMD.

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Management's Discussion and Analysis, Continued

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from HUD subsidy, housing companies and nonresidential projects decreased by approximately \$9.5 million due to the reduction in housing and nonresidential receipts and an increase in mortgage refinancings.
- Interest on revenue bonds decreased by approximately \$8.2 million due to the repayment and refunding of certain bonds.
- Reimbursed grants revenue decreased by approximately \$170.6 million primarily due to a decrease in HUD funding of \$131.2 million to LMDC as a result of reduced program activity. In addition, there was a reduction of \$39.4 million as a result of the transfer of both Brooklyn Bridge Park Development Corporation and Governors Island Preservation and Education Corporation to New York City.
- State appropriation for programs decreased by approximately \$4.5 million primarily due to a reduction in economic development loan program activity.
- Other revenues decreased by approximately \$68.1 million due primarily to the transfer of Brooklyn Bridge Park Development to New York City and the re-allocation of revenue to developers related to the 42<sup>nd</sup> Street Development Project.

Non-operating revenue for fiscal year 2011 approximated \$354.8 million compared to \$292.6 million in fiscal 2010. The increase of \$62.2 million is primarily due to the refinancing of certain bonds and related debt service expected from the State.

### Expenses

Operating expenses in the fiscal year ended March 31, 2011 approximated \$1.507 billion compared with \$962.0 million in fiscal 2010. The net increase is primarily the result of changes in the following areas:

- Economic development grants increased by approximately \$366.3 million due to an increase in activity within existing and new grant programs including projects with Research Foundation of SUNY (Sematech), Fuller Road, and Global Foundries/AMD.
- Subsidiary program and administrative expenses increased by \$260.1 million due primarily to the transfer of Brooklyn Bridge Park Development Corporation and Governors Island Preservation and Education Corporation to New York City.

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Management's Discussion and Analysis, Continued

- General and administrative expenses increased by approximately \$70.5 million due to an agreement to support the Port Authority of New York and New Jersey on the planned development and construction of Tower three at the World Trade Center Site.
- Interest related to corporate purpose bonds decreased by approximately \$3.0 million due to the early retirement of certain bonds.
- Interest on revenue bonds decreased by approximately \$8.2 million due to the repayment and refunding of certain bonds.
- Reimbursed grant expense decreased by approximately \$128.4 million primarily due to a decrease in HUD funding to LMDC based on a reduction in program activity.
- Pollution remediation expenses decreased by approximately \$12.2 million as result of fewer reported remediation requirements.

Non-operating expenses approximated \$352.8 million compared to \$287.7 million in fiscal 2010. The increase of \$65.1 million is due primarily to an increase in bond activity. These costs are provided by the State and therefore, have no negative impact on the Corporation's financial statements.

#### **Anticipated Future Transactions**

The following are anticipated to effect the Corporation subsequent to March 31, 2011:

- The Corporation purchased condominium units 7A - 12A and 14A of the 125 Maiden Lane condominium on November 9, 2006, for an aggregate purchase price of \$61.5 million, with the intent of relocating the Corporate headquarters to these premises. After a careful review of the feasibility of such a move, ESD senior management during fiscal 2008, decided to sell the 125 Maiden Lane property.

During fiscal 2011, the Corporation received \$8.6 million for the sale of Unit 9A. Unit 8A was sold during fiscal 2009 for a total sales price of \$11.1 million. Units 7A - 12A were sold in fiscal 2008 for a combined total sales price of \$40.0 million. Unit 14A remains to be sold.

The Corporation entered into a lease agreement on July 30, 2007 with Time Equities to remain in the condominium units at 633 Third Avenue. As a result of the decision to remain in the current headquarters, the gain on the sale of \$74.4 million is being deferred over the six year lease term for the premises, which included the fiscal year ended March 31, 2011.

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Management's Discussion and Analysis, Continued

- The 2011 - 2012 New York State Fiscal Plan enacted into Law the transfer of the assets, records and liabilities of the Small Business Technology Investment Fund (SBTIF) to the Urban Development Corporation in an effort to increase government efficiency. SBTIF provides early stage high-tech companies throughout the State with a potential source of venture capital to promote new job creation and economic growth. The transfer of the assets and investments took place in April 2011.
- The Personal Income Tax Revenue Bonds Series 2004A-3 are variable rate demand obligations that were supported by liquidity facilities issued by Dexia Credit Locale, New York Branch. These liquidity facilities had an expiration date of July 15, 2011 and Dexia notified the Corporation that the facility would not be renewed. In June 2011, the Corporation will substitute this expiring facility with a liquidity facility issued by JPMorgan Chase Bank, N.A. The implementation of the substitute liquidity facility necessitates a Mandatory Purchase and Remarketing of the Bonds which will take place in June 2011.
- The 42<sup>nd</sup> Street Development Land Use Improvement Project (the "Project") is a joint undertaking of ESD and the City of New York (the "City"). Pursuant to a series of Project Agreements executed between the parties beginning in the 1980s: (a) ESD has implemented the Project through its wholly-owned subsidiary 42<sup>nd</sup> St. Development Project, Inc. ("42DP"); (b) 42DP holds title to all Project properties, subject to a reversionary interest held by the City; and (c) the parties agreed, essentially, that completion of the Project would trigger reversion of title from ESD to the City. As of April 2011, the last Project site has been deemed substantially complete. Accordingly, ESD has been working with the City and New York City Economic Development Corporation ("NYC EDC") to coordinate both; (i) transfer of the Project's formal legal title from 42DP to the City; and (ii) transfer of the Project's administrative/financial oversight from ESD/42DP to NYC EDC. At present, both such transfers are expected to be completed as of July 1, 2011. Such transfers will not alter the flow of Project funds due to ESD/42DP.

**Request for Information**

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

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT  
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Consolidated Balance Sheets  
March 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
	(In thousands)	
Current assets:		
Cash and equivalents	\$ 9,125	2,492
Temporary investments	147,979	141,044
	<u>157,104</u>	<u>143,536</u>
Cash and investment securities restricted or designated for:		
Corporate purpose bonds	32,888	93,824
Revenue bonds	1,416,712	1,357,968
Economic development	191,776	215,356
Subsidiary and other purposes	921,188	1,046,293
	<u>2,562,564</u>	<u>2,713,441</u>
Loans and leases receivable:		
Residential mortgage loans	11,800	9,700
Non-residential, principally leases	3,490	3,150
Economic development loans	1,585	1,407
	<u>16,875</u>	<u>14,257</u>
Due from State of New York	470,231	550,600
Due from Port Authority of New York and New Jersey	21,612	21,612
Grants receivable	16,332	-
Other current assets	41,474	158,051
Total current assets	<u>3,286,192</u>	<u>3,601,497</u>
Investment securities restricted or designated for:		
Corporate purpose bonds	224,853	231,815
Revenue bonds	43,152	62,053
	<u>268,005</u>	<u>293,868</u>
Loans and leases receivable:		
Residential mortgage loans	265,382	293,301
Non-residential, principally leases	40,032	44,133
Economic development loans	84,018	66,513
	<u>389,432</u>	<u>403,947</u>
Due from State of New York	7,265,038	6,479,902
Due from Port Authority of New York and New Jersey	202,883	208,921
Due from New York Job Development Authority	25,896	25,186
Real property and office equipment, net	1,255,399	1,302,552
Other assets	119,933	116,271
Total non-current assets	<u>9,526,586</u>	<u>8,830,647</u>
Total assets	<u>\$ 12,812,778</u>	<u>12,432,144</u>

(Continued)

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Balance Sheets, Continued

<u>Liabilities and Net Assets</u>	<u>2011</u>	<u>2010</u>
	(In thousands)	
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Corporate purpose bonds	\$ 14,110	30,225
Revenue bonds	639,529	570,633
Other project revenue bonds	263	253
Other financing	60,395	55,000
	<u>714,297</u>	<u>656,111</u>
Accounts payable and accrued expenses	258,814	262,397
Grants payable	-	69,959
Interest payable	103,353	94,900
Other current liabilities	75,701	71,444
Total current liabilities	<u>1,152,165</u>	<u>1,154,811</u>
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Corporate purpose bonds	146,921	188,348
Revenue bonds	8,438,423	7,762,874
Project revenue bonds - New York Convention Center Development Corporation	710,494	711,154
Other project revenue bonds	1,210	1,473
Other financing	92,434	91,820
	<u>9,389,482</u>	<u>8,755,669</u>
Repayable to related governmental entities	31,159	18,016
Pollution remediation liability	28,212	51,395
Other liabilities	240,283	254,993
Total non-current liabilities	<u>9,689,136</u>	<u>9,080,073</u>
Total liabilities	<u>10,841,301</u>	<u>10,234,884</u>
Minority interest	<u>134,137</u>	<u>124,845</u>
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	545,555	719,139
Total restricted	<u>743,109</u>	<u>916,693</u>
Invested in capital assets, net of related debt	<u>1,094,231</u>	<u>1,155,722</u>
Total net assets	<u>1,837,340</u>	<u>2,072,415</u>
Commitments and contingencies (note 19)		
Total liabilities and net assets	<u>\$ 12,812,778</u>	<u>12,432,144</u>

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Revenue, Expenses  
and Changes in Net Assets  
Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	\$ 12,519	14,063
Housing companies	11,499	13,201
Nonresidential projects	8,493	14,800
Interest on revenue bonds	75,765	84,015
Hotel tax revenue	39,309	33,258
Reimbursed grants	272,153	442,755
Economic development grants	786,952	438,304
State appropriation for programs	13,378	17,907
Other revenue	<u>59,695</u>	<u>127,805</u>
Total operating revenue	<u>1,279,763</u>	<u>1,186,108</u>
Operating expenses:		
Interest related to:		
Corporate purpose bonds	10,479	13,527
Corporate loan	5,395	4,221
Interest on revenue bonds	75,765	84,015
Reimbursed grants	155,714	284,074
Economic development grants	790,788	424,524
General and administrative	127,965	57,480
Subsidiary program and administrative	332,735	72,669
Pollution remediation	377	12,629
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,070)	(4,066)
Depreciation	<u>12,484</u>	<u>12,947</u>
Total operating expenses	<u>1,507,632</u>	<u>962,020</u>
Minority interest	<u>(9,292)</u>	<u>(7,250)</u>
Operating income (loss)	<u>(237,161)</u>	<u>216,838</u>

(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 Assets, Continued

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	\$ 350,656	286,403
Interest and finance income earned on investment of revenue bond proceeds	2,067	1,686
Other investment income, including change in fair value	<u>2,128</u>	<u>4,539</u>
Total non-operating revenue	354,851	292,628
Non-operating expenses - interest and other costs on revenue bonds	<u>(352,765)</u>	<u>(287,730)</u>
Non-operating income	<u>2,086</u>	<u>4,898</u>
Excess (deficiency) of revenue over expenses	(235,075)	221,736
Net assets at beginning of year	<u>2,072,415</u>	<u>1,850,679</u>
Net assets at end of year	<u>\$ 1,837,340</u>	<u>2,072,415</u>

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	\$ 32,511	42,064
State appropriation received for interest on debt	75,765	84,015
Other operating receipts	59,695	127,805
Cash received from hotel tax revenue	38,240	33,964
Grants received	1,225,688	785,852
Interest payments on corporate purpose bonds	(11,102)	(15,744)
Interest payments on revenue bonds	(75,765)	(84,015)
Payments for general and administrative expenses	(445,614)	(30,712)
Grant payments	(1,041,859)	(780,225)
Payments for pollution remediation	(23,560)	(33,099)
Net cash provided by (used in) operating activities	<u>(166,001)</u>	<u>129,905</u>
Cash flows from non-capital financing activities:		
Retirement of corporate purpose bonds	(57,542)	(70,315)
Retirement of other project revenue bonds	(1,726)	(216)
Increase (decrease) in other liabilities	(58,634)	7,443
Net cash used in non-capital financing activities	<u>(117,902)</u>	<u>(63,088)</u>
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	2,149,956	1,471,935
Retirement of revenue bonds	(1,405,511)	(485,652)
Accrued interest payable on revenue bonds	9,076	2,387
Bond payments - New York Convention Center Development Corporation, net of issuing costs	(660)	(656)
Advances on behalf of State of New York for special projects	(704,767)	(406,291)
Net cash provided by capital financing activities	<u>48,094</u>	<u>581,723</u>
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	24,713,976	20,992,710
Purchase of investment securities	(24,544,171)	(21,423,466)
Investment income, net	2,086	4,898
Cash payments on behalf of the New York Job Development Authority	(710)	8,814

(Continued)

See accompanying notes to consolidated financial statements.

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

	<u>2011</u>	<u>2010</u>
	(In thousands)	
Cash flows from investing activities, continued:		
Payments received from projects financed by corporate revenue bonds	\$ 29,580	30,382
Collections on economic development loans	(470)	(41,194)
Net activity on economic development projects	7,482	6,820
Investment in real property and office equipment	<u>34,669</u>	<u>(226,452)</u>
Net cash provided by (used in) investing activities	<u>242,442</u>	<u>(647,488)</u>
Net increase in cash and equivalents	6,633	1,052
Cash and equivalents at beginning of year	<u>2,492</u>	<u>1,440</u>
Cash and equivalents at end of year	<u>\$ 9,125</u>	<u>2,492</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	(237,161)	216,838
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	12,484	12,947
Minority interest	9,292	7,250
Fair market value of derivative instruments	48,181	-
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,070)	(4,066)
Changes in:		
Due from Port Authority of New York and New Jersey	6,038	11,908
Grants receivable	(16,332)	-
Other current assets	116,577	(93,803)
Other assets	(3,662)	(43,449)
Accounts payable and accrued expenses	(3,583)	81,340
Grants payable	(69,959)	(38,456)
Interest payable	(623)	(2,217)
Pollution remediation liability	<u>(23,183)</u>	<u>(18,387)</u>
Net cash provided by (used in) operating activities	<u>\$ (166,001)</u>	<u>129,905</u>

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

March 31, 2011 and 2010

**Note 1 - Corporate Background and Activities**

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

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

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

UDC is engaged in three principal activities:

**(a) Economic Development**

UDC's efforts in economic development projects are directed at several activities involving civic, commercial, high technology and industrial development within the State. UDC's goal is to create and retain jobs and to reinvigorate economically distressed areas throughout the State. To assist the Corporation in attaining its goals, 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 issuance of non-recourse revenue bonds and mortgages (see note 13). UDC currently provides financial assistance, including low cost project financing primarily in the form of grants. The financial assistance is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation and disbursed to projects primarily in the form of grants.

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 1 - Corporate Background and Activities, Continued**

**(a) Economic Development, Continued**

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary. The purpose of the subsidiary is to assist in the economic recovery and revitalization of lower Manhattan. In 2001, LMDC received a direct grant of up to \$2.8 billion from the United States Department of Housing and Urban Development ("HUD") and Federal Transportation Administration. Approximately \$160 million and \$314 million were received and disbursed during the years ended March 31, 2011 and 2010, respectively.

Additionally in 2001, ESD was directly appropriated \$700 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately \$3.2 million and \$1.3 million was received and disbursed during the years ended March 31, 2011 and 2010, respectively. As of March 31, 2011, \$0.2 million was returned to HUD from Grantee repayments.

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

**(b) State Special Projects**

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

**(c) Housing Projects**

Residential developments for low, moderate and middle income persons and families, nonresidential, civic, commercial and industrial properties, and development of new communities were financed by corporate purpose bonds. Since the mid 1970's, UDC activity in this area has been limited to the monitoring and loan servicing of existing projects.

**Note 2 - Summary of Significant Accounting Policies**

**(a) Basis of Accounting and Principles of Consolidation**

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

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

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

**(b) Estimates**

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

**(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 balance sheets, and investment income, including changes in fair value, are reported as revenue in the consolidated statements of revenue, expenses and changes in net assets.

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**

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

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

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

**(e) Loans and Leases Receivable, Continued**

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

**(f) Delinquent Interest**

Delinquent interest on residential mortgages, nonresidential mortgages and UDC advances to housing companies 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, Community Enhancement Facilities, are issued by UDC at the direction of the State Legislature. Most revenue bonds were issued under the Personal Income Tax Resolution for State Facilities and Equipment and Economic Development and Housing or currently General Purpose. UDC expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses such as bond issuance costs, discounts and advance refunding costs. During fiscal 2011 and 2010, UDC received from the State \$972.0 million and \$880.8 million, respectively.

Amounts received from the State were used to meet principal payments of \$563.9 million and \$430.2 million in fiscal 2011 and 2010, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2011 and 2010 UDC applied \$28.6 million and \$31.6 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

**(h) Bond Defeasances and Refundings**

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

In fiscal 2011 and 2010, UDC redeemed \$27.5 million and \$41.7 million, respectively, of the Corporate Purpose Senior Lien Bond Series 1996 with funds received primarily from repayment of the Corporation's housing mortgages which secure the corporate purpose bonds.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

**(h) Bond Defeasances and Refundings, Continued**

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

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

**(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, 2011 and 2010, construction costs incurred in the amount of approximately \$151.5 million and \$197.2 million, respectively were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of \$33.1 million, net of \$2.2 million of interest income.

**(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 the housing portfolios, economic development grants, hotel tax collections, State appropriations for interest on revenue bonds where the Corporation's Board of Directors approves the disbursement of the funds, and grants from Federal, State and City agencies. The Corporation's operating expenses include project and program costs and related administrative expenses. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**(k) State Appropriations**

State appropriations are subject to approval by the State Legislature. UDC has no assurance that required appropriations will be made beyond the current year to meet certain debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet UDC's obligations for fiscal 2012.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

**(l) Grants**

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

**(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 assets or liabilities in the consolidated balance sheets, with appropriate offsets to either operations or net assets. UDC is fully reimbursed by the State for all expenses related to revenue bonds. The fair value of the instruments is recorded either as a receivable from or payable to the State. During the year ended March 31, 2011, the Corporation implemented GASB Statement No. 53 - "Accounting and Financial Reporting for Derivative Investments" which addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments, and requires governments to test the effectiveness of derivative investments, and record derivative investments at fair value.

**(n) Pollution Remediation Costs**

Effective for the year ended March 31, 2009, pollution remediation costs are being charged in accordance with the provisions of GASB Statement No. 49 (see note 15). An operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligations that previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations 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.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 2 - Summary of Significant Accounting Policies, Continued**

**(o) Subsequent Events**

The Corporation has evaluated events after March 31, 2011, and through June 3, 2011, which is the date the consolidated financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these consolidated financial statements.

**Note 3 - Cash and Equivalents**

As part of the Emergency Economic Stabilization Act of 2008 (the Act), banks that participate in the FDIC's Temporary Liquidity Guarantee program provide full FDIC insurance on all non-interest bearing accounts, regardless of dollar amount. The provisions of the Act were extended to assure that this coverage will remain in place through December 31, 2012. Additionally, the current Federal Depositors Insurance Corporation (FDIC) coverage limit for interest-bearing accounts is \$250,000. Therefore, the Corporation's cash and equivalents are fully insured.

**Note 4 - Fair Value of Financial Instruments**

**Financial Instruments**

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

- Obligations of the United States Treasury, agencies and authorities;
- Direct obligations of the State of New York, its political subdivisions and public authorities;
- Collateralized investments, which are fully secured as to principal by U.S. Treasury securities and agencies of the U.S. Government, with financial institutions, which meet specified criteria;
- Repurchase agreements with financial institutions doing business in New York State which are listed as primary government securities dealers by New York's Federal Reserve Bank, and which are collateralized by U.S. Government securities;
- Commercial paper issued by domestic banks, corporations and financial companies rated "A-1" or better by Standard & Poor's Corporation or "P-1" by Moody's Investors Service, Inc.;
- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in UDC's name;
- Certificates of deposit; and
- Units, shares or interest in a mutual fund or money market fund of regulated investment companies that meet specified criteria.

Investment securities cost and fair value at March 31, 2011 and 2010 consisted of the following (in thousands):

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 4 - Fair Value of Financial Instruments, Continued**

	<u>2011</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized loss</u>
U.S. Government and Federal agency obligations	\$ 2,863,118	2,856,550	(6,568)
Restricted cash	<u>121,998</u>	<u>121,998</u>	-
Total	\$ <u>2,985,116</u>	<u>2,978,548</u>	<u>(6,568)</u>
	<u>2010</u>		
	<u>Cost</u>	<u>Fair value</u>	<u>Unrealized loss</u>
U.S. Government and Federal agency obligations	\$ 3,091,969	3,085,904	(6,065)
Restricted cash	<u>62,449</u>	<u>62,449</u>	-
Total	\$ <u>3,154,418</u>	<u>3,148,353</u>	<u>(6,065)</u>

**Fair Value Measurements**

The Financial Accounting Standards Board established a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Level 1 are assets and liabilities whose inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access. The Corporation holds U.S. Government and Federal Agency obligations with a quoted price in active markets for identical assets (level 1) of \$2.857 and \$3.086 million at March 31, 2011 and 2010, respectively.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 4 - Fair Value of Financial Instruments, Continued**

Investment securities were reported at fair value in the consolidated balance sheets at March 31, 2011 and 2010 as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Current Investments:		
Temporary investments	\$ <u>147,979</u>	<u>141,044</u>
Cash and investment securities restricted or designated for:		
Corporate purpose bonds	32,888	93,824
Revenue bonds	1,416,712	1,357,968
Economic development	191,776	215,356
Subsidiary and other purposes	<u>921,188</u>	<u>1,046,293</u>
	<u>2,562,564</u>	<u>2,713,441</u>
Long-Term Investments - investment securities restricted or designated for:		
Corporate purpose bonds	224,853	231,815
Revenue bonds	<u>43,152</u>	<u>62,053</u>
	<u>268,005</u>	<u>293,868</u>
Total investment securities	\$ <u>2,978,548</u>	<u>3,148,353</u>

Restricted or designated investment securities held by UDC include cash and equivalents and investment securities amounting to \$921.2 million and \$1,046.3 million at March 31, 2011 and 2010, respectively. These amounts at March 31, 2011 and 2010 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 4 - Fair Value of Financial Instruments, Continued**

	<u>2011</u>	<u>2010</u>
Subsidiary/Programs/Purposes:		
42 <sup>nd</sup> Street Development Project Corporation	\$ 191,679	191,439
Governors Island Preservation and Education Corporation	-	19,503
New York Empowerment Zone Corporation	21,442	25,442
Queens West Development Corporation	17,521	25,810
Harlem Community Development Corporation	5,199	5,556
Enterprise Community	1,015	1,033
USA Niagara Development Corporation	12,473	14,304
Lower Manhattan Development Corporation	3,129	4,612
Lower Manhattan Development Corporation 130 Liberty Escrow	16,352	-
New York Convention Center Development Corporation	509,188	604,758
Moynihan Station (James A. Farley Post Office Building)	27,445	36,299
ESD One Bryant Park	13,072	12,883
ESD 125 Maiden Lane	58,040	49,386
ESD Vark Riverview II Housing Rehabilitation	-	2,913
ESD Project Repair Program	6,917	6,649
ESD Buffalo Inner Harbor Development Corporation	2,385	2,558
ESD Erie Canal Harbor Development Corporation	7,136	8,342
Housing and Economic Development Loan Escrow	3,337	3,327
ESD New York	3,065	3,065
UDC Housing Resyndication and Project Improvement	1,991	2,371
ESD OPEB Liability Account	15,405	11,237
ESD Brooklyn Arena Project	782	1,130
Brooklyn Bridge Park	-	11,821
ESD Dorado Warburton Housing Rehabilitation, Charlotte Lake Rehabilitation and Broadway E. Rehabilitation	417	590
Columbia University Manhattan Campus	471	546
NYSUDC Housing Disbursement	2,326	150
Other purposes	<u>401</u>	<u>569</u>
Total	\$ <u>921,188</u>	<u>1,046,293</u>

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 5 - Loans and Leases Receivable**

Residential mortgage loans, nonresidential lease receivables, mortgage loans and real estate investments and economic development loans at March 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>		<u>2010</u>	
	<u>Number</u>	<u>Balance</u>	<u>Number</u>	<u>Balance</u>
Residential mortgage loans (a):				
HUD subsidized (Section 236)	47	\$ 205,698	55	244,874
Non-subsidized projects	5	47,105	5	49,001
Retention Loan (Section 32 Advance)	5	16,250	5	9,126
Tenant Repair Loan	9	8,129	-	-
	<u>66</u>	<u>277,182</u>	<u>65</u>	<u>303,001</u>
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (b)	7	30,372	7	33,112
Commercial leases (c)	4	11,947	4	12,941
Real estate investments (d)	4	1,203	4	1,230
	<u>15</u>	<u>43,522</u>	<u>15</u>	<u>47,283</u>
Economic development loans (e)	<u>101</u>	<u>85,603</u>	<u>85</u>	<u>67,920</u>
Total	<u>182</u>	<u>406,307</u>	<u>165</u>	<u>418,204</u>
Less current portion		<u>(16,875)</u>		<u>(14,257)</u>
Non-current portion		<u>\$ 389,432</u>		<u>403,947</u>

**(a) Residential Mortgage Loans**

Residential mortgage loans are secured by first liens on the properties and are usually payable in equal installments (principal and interest) over an original 40-year term. Remaining terms range from 3 to 22 years. The loans are without recourse against the borrower and the stated interest rate is between 7.5% and 8.5%. The New York State Division of Housing and Community Renewal ("DHCR") has supervisory jurisdiction over UDC's residential projects.

At March 31, 2011, 52 residential projects (subsidized and non-subsidized), remain from the original total of 113. Of the 52, 47 are subsidized by HUD under contracts pursuant to Section 236 of the National Housing Act which provides interest reduction subsidy payments in connection with mortgages. Interest reduction contracts provide 60% to 65% of the mortgage debt service and effectively reduce the mortgagors' responsibility to the payment of principal plus interest at 1%. HUD payments for the 47 and 55 Section 236 projects totaled \$30.7

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 5 - Loans and Leases Receivable, Continued**

million and \$32.9 million for the years ended March 31, 2011 and 2010, respectively. The other projects are not subsidized under the Section 236 program and pay principal plus interest at rates of 7.5% to 8.5%.

Certain projects have required and are expected to require advances from UDC because of the failure of certain mortgagors to take such actions deemed by UDC to be necessary or appropriate to protect the mortgaged property. Such advances, amounting to \$2.6 million and \$.87 million for the years ended March 31, 2011 and 2010, respectively, were expensed for financial reporting purposes, but have been added to the existing mortgage receivable balances for credit management purposes. In addition, there were retention loan advances in the amounts of \$7.1 million and \$4.2 million for the years ended March 31, 2011 and 2010, respectively.

The Tenant Repair and Improvement Loan Program was established to provide low cost loans to owners of eligible properties to eliminate health and safety issues, enhance living conditions and improve the fiscal health of the Mitchell-Lama housing projects in ESD's loan portfolio. A requirement of the program is that all approved repair and construction be completed within six months of the start of construction. There were loan advances in the amount of \$8.1 million for the year ended March 31, 2011.

**(b) Non-residential Lease Receivables**

Non-residential lease receivables consist of 7 projects outstanding in both 2011 and 2010 which were owned by UDC and leased to others. UDC recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2011, the remaining lease terms ranged from 1 to 12 years. There are 6 leases with the City of New York (\$28.7 million) and 1 is with a bank (\$1.7 million). At March 31, 2011, minimum lease payments to be received for each of the next 5 fiscal years aggregate \$5.8 million per year.

**(c) Commercial Leases**

Commercial leases consist of ground rent and commercial Tax Equivalency Payments due to the Corporation pursuant to ground leases on 4 Roosevelt Island housing projects totaling 2,141 units which include 2 non-subsidized, 1 subsidized, and 1 cooperative. Although the UDC mortgages on the subsidized and cooperative housing projects totaling 1,380 units have been satisfied, these payments continue to be due and owing to the Corporation. The various ground lease terms range from 1 to 19 years. The receivable balance of \$11.9 million is amortized at an average annual interest rate of 7.5%.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 5 - Loans and Leases Receivable, Continued**

**(d) Real Estate Investments**

Real estate investments consist of approximately 530 acres of land (comprised of 4 sites) in the Towns of Lysander and Amherst for residential, commercial and industrial development in the planned communities of Radisson and Audubon.

**(e) Economic Development Loans**

Economic development loans consist of secured, low interest loans made to companies in the State to retain and create jobs. The terms range from 1 to 23 years. The funds to make the loans came from State appropriations which are not repayable. The loans are net of allowance for possible losses of approximately \$86 million and \$67 million at March 31, 2011 and 2010, respectively.

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

UDC expects to receive \$395 million over 15.5 years from the Port Authority of New York and New Jersey. The revenue stream was assigned to UDC in fiscal 2005 by the State of New York. The net present value of the future cash flows in the amount of approximately \$280 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, 2011, annual minimum payments to be received in each of the next five years is approximately \$25.2 million per year. The net present value of the receivable balance at March 31, 2011 and 2010 amounted to \$218 million and \$231 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 million from the Port Authority to extend the West End Concourse at New York Penn Station. In fiscal 2011, the Port Authority made payments to MSDC totaling \$3.7 million. The receivable balance at March 31, 2011 amounted to \$6.3 million.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 7 - Real Property and Office Equipment**

Real property and office equipment at March 31, 2011 and 2010 consists of the following (in thousands):

	2011			
	Balance at March 31, <u>2010</u>	<u>Additions</u>	<u>Disposals</u>	Balance at March 31, <u>2011</u>
Land	\$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,156,690	140,147	(186,659)	1,110,178
Moynihan Station	40,203	11,337	-	51,540
Furniture and equipment	23,347	-	(437)	22,910
	1,587,933	151,484	(187,096)	1,552,321
Less accumulated depreciation	(285,381)	(12,484)	943	(296,922)
Totals	\$ 1,302,552	139,000	(186,153)	1,255,399
	2010			
	Balance at March 31, <u>2009</u>	<u>Additions</u>	<u>Disposals</u>	Balance at March 31, <u>2010</u>
Land	\$ 339,463	28,230	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	692,149	464,541	-	1,156,690
Moynihan Station	307,509	-	(267,306)	40,203
Furniture and equipment	22,360	987	-	23,347
	1,361,481	493,758	(267,306)	1,587,933
Less accumulated depreciation	(272,434)	(12,947)	-	(285,381)
Totals	\$ 1,089,047	480,811	(267,306)	1,302,552

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 7 - Real Property and Office Equipment, Continued**

**(a) Buildings, Improvements and Construction In Progress**

Major components of buildings, improvements and construction in progress at March 31, 2011 and 2010 are as follows (in thousands):

	<u>2009</u>	Net increase <u>(decrease)</u>	<u>2010</u>	Net increase <u>(decrease)</u>	<u>2011</u>
New York Convention Center					
Development Corporation	\$ 555,623	95,546	651,169	140,114	791,283
USA Niagara	18,846	22	18,868	33	18,901
Brooklyn Bridge Park					
Development Corporation	47,258	70,214	117,472	(117,472)	-
Corporate office	4,893	276,117	281,010	14,131	295,141
Others	<u>65,529</u>	<u>22,642</u>	<u>88,171</u>	<u>(83,318)</u>	<u>4,853</u>
Total	<u>\$ 692,149</u>	<u>464,541</u>	<u>1,156,690</u>	<u>(46,512)</u>	<u>1,110,178</u>

**(b) James A. Farley Post Office Building**

On March 30, 2007, UDC completed the purchase of the James A. Farley Post Office Building for \$230 million plus additional charges for interim operating and maintenance costs incurred prior to closing. The acquisition was financed as follows (in thousands):

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

UDC borrowed \$75 million from a bank and incurred seller financed debt of \$130 million (see note 14) to complete the acquisition.

The Port Authority of New York and New Jersey committed \$140 million that was used for the purchase of the James A. Farley Post Office Building. As the funds were received, they were recorded as revenue in the corresponding fiscal year. The deferred purchase price is payable from tenants' project revenue as described more fully in the funding agreements.

In February 2010, UDC refinanced the \$75 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.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 7 - Real Property and Office Equipment, Continued**

**(c) Yale Building**

In August 2006, the Corporation entered into an agreement to purchase the Yale Building site from New York Convention Center Operating Corporation ("CCOC"). The agreement provided that CCDC defease certain outstanding bonds of CCOC in the amount of \$66.2 million, subsequently reduced to \$62.4 million. In addition to the defeasance amount, CCDC has agreed to make an additional \$15 million payment to CCOC upon the sale or lease of certain property (as defined in the Purchase and Sale Agreement). This amount is not being recorded on the financial statements since it is contingent on the sale of a parcel of land owned by CCDC. All amounts incurred in connection with this purchase will be recorded as land.

**(d) Depreciation**

Depreciation expense for the years ended March 31, 2011 and 2010 amounted to \$12.5 million and \$12.9 million, respectively.

**Note 8 - Other Assets**

Other assets at March 31, 2011 and 2010 consist of the following (in thousands):

	<u>2011</u>	<u>2010</u>
Interest receivable	\$ 2,213	2,880
Unamortized bond finance costs	22,623	23,696
Receivable from municipalities, other authorities and others	7,398	7,822
Receivable from HUD - LMDC grant	22,511	173,745
Hotel tax receivable	9,560	8,491
Due from First Trust Trustee	10,768	10,768
Prepaid insurance	8,449	7,556
Other assets - 125 Maiden Lane	8,247	17,328
Other	<u>69,638</u>	<u>22,036</u>
	161,407	274,322
Less current portion	<u>(41,474)</u>	<u>(158,051)</u>
Non-current portion	<u>\$ 119,933</u>	<u>116,271</u>

**Note 9 - Postemployment Benefits Other Than Pensions**

The Corporation follows the accounting and disclosure requirements of GASB Statement No. 45, - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" effective for its fiscal year beginning April 1, 2007.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 9 - Postemployment Benefits Other Than Pensions, Continued**

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.

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, 2011 and 2010 amounted to \$5.7 million and \$5.4 million, respectively, of which the Corporation paid \$1.5 million in each year. At March 31, 2011 and 2010, the liability for postemployment benefits other than pensions amounted to \$15.4 million and \$11.2 million, respectively.

The number of participants as of March 31, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Active employees	273	358
Retired employees	<u>181</u>	<u>150</u>
Total	<u>454</u>	<u>508</u>

Funding Policy - For the years ended March 31, 2011 and 2010, the Corporation paid for postemployment retirement 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, 2011 and 2010, the Corporation's annual OPEB cost amounted to \$5.7 million and \$5.4 million, respectively.

<u>Benefit Obligations and Normal Cost (in Thousands)</u>	<u>2011</u>	<u>2010</u>
Actuarial accrued liability ("AAL"):		
Active employees	\$ 35,296	30,760
Retired employees	<u>21,106</u>	<u>21,544</u>
Total	\$ <u>56,402</u>	<u>52,304</u>

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 9 - Postemployment Benefits Other Than Pensions, Continued**

	<u>2011</u>	<u>2010</u>
Underfunded actuarial accrued liability ("UAAL")	\$ <u>56,402</u>	<u>52,304</u>
Normal cost at beginning of year	\$ <u>3,264</u>	<u>3,108</u>
 <u>Level Dollar Amortization</u>		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	\$ 2,454	2,275
Normal costs with interest to end of year	<u>3,280</u>	<u>3,119</u>
Annual required contribution ("ARC")	\$ <u>5,734</u>	<u>5,394</u>
 <u>Annual OPEB Cost Contribution</u>		
Contribution for the year	\$ 1,580	1,470
Contribution as a percentage of required contribution	27.6%	27.3%
 <u>Annual OPEB Cost and Net OPEB Obligation</u>		
Annual required contribution	\$ 5,734	5,394
Contribution made on a pay-as-you-go basis	<u>(1,580)</u>	<u>(1,470)</u>
Increase in net OPEB obligation	4,154	3,924
Net OPEB obligation at beginning of year	<u>11,228</u>	<u>7,304</u>
Net OPEB obligation at end of year	\$ <u>15,382</u>	<u>11,228</u>
Actuarial methods and assumptions:		
Funding interest rate		4.5%
2010/2011 trend rate (medical/drugs)		8%/7%
2011/2012 trend rate (medical/drugs)		7%/7%
Ultimate trend rate (medical/drugs)		9%/5%
Year ultimate trend rate rendered		2013
Annual payroll growth rate		2.5%
Actuarial cost method	Projected Unit Credit Method	
The remaining amortization period at March 31, 2011		<u>26 years</u>

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements, Continued

**Note 10 - Corporate Purpose Bonds**

As of March 31, 2011 and 2010, UDCs outstanding corporate purpose bonds were as follows (in thousands):

	Coupon rate	Balance at March 31, 2010	Principal payment	Redeemed	Balance at March 31, 2011	Maturity date	Sinking Fund Annual Installment Requirements Ranging				
							From year	Amount	Through year	Amount	Final amount
<b>1996 Senior Lien Bonds (a):</b>											
Term	5.50	\$ 44,245	(16,780)	(27,465)	-						
<b>1996 Subordinate Lien Bonds (a):</b>											
Term	5.50	41,600	(6,820)	-	34,780	2017	2012	3,550	2017	2,235	2,235
Term	5.50	24,895	-	-	24,895	2023	2017	1,915	2023	1,930	1,930
Term	5.60	11,460	-	-	11,460	2027	2023	1,855	2027	300	300
		<u>77,955</u>	<u>(6,820)</u>	<u>-</u>	<u>71,135</u>						
<b>2001 Senior Lien Bonds (b):</b>											
Serial	4.20 - 4.80	18,590	(2,675)	-	15,915	2011-2017					
Term	5.125	11,640	-	-	11,640	2022	2017	1,010	2022	1,335	1,335
Term	5.20	5,980	-	-	5,980	2025	2022	1,300	2025	1,520	770
		<u>36,210</u>	<u>(2,675)</u>	<u>-</u>	<u>33,535</u>						
<b>2004A Subordinate Lien Bonds (c):</b>											
Serial	3.625 - 5.00	19,195	(3,950)	-	15,245	2011-2015					
Term (d)	5.125	42,800	-	-	42,800	2022	2015	2,375	2022	6,685	3,385
		<u>61,995</u>	<u>(3,950)</u>	<u>-</u>	<u>58,045</u>						
Principal outstanding		220,405	<u>(30,225)</u>	<u>(27,465)</u>	162,715						
Less unamortized bond discount		205			218						
Unamortized loss on current refundings		<u>(2,037)</u>			<u>(1,902)</u>						
Total		218,573			161,031						
Less current portion		<u>(30,225)</u>			<u>(14,110)</u>						
Total non-current liabilities		<u>\$ 188,348</u>			<u>146,921</u>						

(a) Early redemption options may commence in 2006 at 102%. Redemption premium is subject to periodic reductions.

(b) Early redemption options may commence in 2012 at 100%.

(c) Early redemption options may commence in 2014 at 100%.

(d) Range shown represents 8 term bonds with 8 maturity dates.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 10 - Corporate Purpose Bonds, Continued**

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

The 2001 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.2 million. This difference, reported in the accompanying consolidated financial statements as a deduction from bonds payable, is being charged to operations through the year 2025. The Corporation completed the refunding to reduce its total debt service payments over the next 25 years by approximately \$27 million and to obtain an economic gain of approximately \$7.7 million.

The Corporation issued 2004A Subordinate Lien Corporate Purpose Bonds in the amount of \$81.5 million in April 2004. The bonds were issued to fund economic development projects or programs of the Corporation. These bonds are supported with new cash flows from the Port Authority of New York and New Jersey assigned by the State of New York to the Corporation (see note 6). The net present value of the assigned payments amounted to approximately \$218 million and \$231 million at March 31, 2011 and 2010, respectively.

In fiscal 2011, UDC redeemed \$27.5 million of the 1996 Senior Lien Corporate Purpose Bonds with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds. In fiscal 2010, UDC redeemed \$41.7 million of the 1996 Senior Lien Corporate Purpose Bonds with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

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

Annual principal maturities and interest obligations for the next five years following March 31, 2011 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 14,110	8,259	22,369
2013	14,810	7,551	22,361
2014	14,600	6,808	21,408
2015	14,060	6,080	20,140
2016	<u>12,400</u>	<u>5,389</u>	<u>17,789</u>
	<u>\$ 69,980</u>	<u>34,087</u>	<u>104,067</u>

Aggregate principal maturities subsequent to 2016 are approximately \$92.7 million.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds**

At March 31, 2011 and 2010, UDC's outstanding revenue bonds were as follows (in thousands):

<u>(a) Correctional Facilities</u>	<u>Balances</u>		<u>Coupon rates (%)</u>	<u>Maturity dates</u>
	<u>2011</u>	<u>2010</u>		
<u>Correctional Facilities Revenue Bonds</u>				
1988 Series F	\$ 8,897	13,092	zero coupon	2013
1993A Refunding	44,505	62,525	5.50	2014
1998 Refunding	410	800	5.00 - 5.10	2012
<u>Correctional Facilities Service Contract</u>				
2000 - Series D	5,765	11,240	5.00 - 5.25	2012
2002 - Series A	-	533,820	5.00 - 5.50	2011
2003 - Series A	-	5,130	3.50 - 5.00	2011
<u>Correctional Capital Facilities</u>				
1993A Capital Refunding	57,245	83,435	5.25 - 6.50	2014
1998 Refunding	775	1,515	5.00	2012
Total Correctional Facilities Issues	<u>117,597</u>	<u>711,557</u>		
<u>(b) Youth Facilities Service Contract</u>				
2000 Series B	500	975	5.50 - 5.60	2012
2002 Series C	-	54,295	4.00 - 5.00	2011
2003 Series B	-	7,260	3.50	2011
Total Youth Facilities Service Contract Issues	<u>500</u>	<u>62,530</u>		

(Continued)

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

(c) Personal Income Tax Revenue Bonds (P.I.T.) <u>State Facilities and Equipment</u>	Balances		Coupon rates (%)	Maturity dates
	<u>2011</u>	<u>2010</u>		
2002 Series A	\$ 14,245	19,025	4.00 - 5.38	2016
2002 Series C-1	43,785	53,120	4.25 - 5.50	2019
2002 Series C-2 (Taxable)	1,890	2,765	5.15	2013
2003 Series B	28,725	35,110	3.50 - 5.25	2015
2004 Series A-1	237,560	237,560	3.63 - 5.25	2034
2004 Series A-2	300,485	300,485	3.63 - 5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2005 Series B	188,430	193,435	3.65 - 5.00	2035
2007 Series B	258,605	269,625	3.63 - 5.00	2037
2007 Series C	259,710	267,930	4.00 - 5.00	2037
2009 Series B-1	435,320	470,255	3.00 - 5.25	2038
2009 Series B-2	88,135	98,160	5.25 - 6.45	2018
 <u>Economic Development and Housing</u>				
2003 Series A-1	15,015	19,655	3.38 - 5.00	2014
2003 Series A-2 (Taxable)	45,385	59,215	4.45 - 4.85	2014
2003 Series C-1	25,295	26,895	3.20 - 5.00	2023
2003 Series C-2 (Taxable)	38,800	56,935	4.50 - 4.97	2013
2004 Series B-1	4,240	4,240	5.00	2015
2004 Series B-2	3,620	4,455	3.00 - 5.00	2015
2004 Series B-3 (Taxable)	30,690	52,000	4.22 - 4.51	2013
2005 Series A-1	110,425	115,590	3.00 - 5.00	2026
2005 Series A-2 (Taxable)	38,610	45,355	4.44 - 4.73	2016
2007 Series A	30,485	33,360	3.60 - 5.00	2023
2008 Series A-1	406,380	434,910	3.50 - 5.00	2028
2008 Series A-2	25,380	28,450	3.73 - 4.86	2018
2009 Series A-1	302,450	322,785	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	110,830	121,580	4.32 - 6.50	2019

(Continued)

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

(c) <u>Personal Income Tax Revenue Bonds (P.I.T.), Continued</u>	Balances		<u>Coupon rates (%)</u>	<u>Maturity dates</u>
	<u>2011</u>	<u>2010</u>		
<u>General Purpose</u>				
2009 Series C	\$ 653,495	672,680	2.00 - 5.00	2023
2009 Series D (Taxable)	164,590	223,175	0.56 - 2.48	2014
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	351,950	-	2.00 - 5.00	2020
2010 Series B (Taxable)	328,365	-	0.70 - 2.60	2015
2010 Series C (Taxable Build America)	413,760	-	4.60 - 5.80	2040
Total Personal Income Tax Revenue Bonds	5,831,285	5,043,380		
 <u>(d) University Facilities</u>				
Columbia University 1989 Series	35,733	38,848	zero coupon	2020
Cornell University 1989 Series	4,785	5,202	zero coupon	2020
RPI Project 1995 Series	7,840	11,455	5.50	2013
Clarkson University - Loan 1995 Series	7,110	7,715	5.50	2020
Syracuse University - Loan 1995 Series	13,235	15,050	5.50	2017
University Facilities Grants 1995 Series	12,470	13,485	5.50 - 5.88	2021
Total University Facilities Issues	81,173	91,755		
 <u>(e) State Office Facilities</u>				
State Office Facilities Lease Rental Bonds				
Series A (South Mall Facility)	-	33,444	zero coupon	2011
State Office Facilities 1995 Refunding Series	154,005	165,230	5.60 - 5.75	2021
Total State Office Facilities Issues	154,005	198,674		
 <u>(f) Other Projects</u>				
Community Enhancement Facilities - Assistance Program 1998 Series	6,337	11,726	zero coupon	2014

(Continued)

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

<u>(g) Service Contract Refunding</u>	<u>Balances</u>		<u>Coupon rates (%)</u>	<u>Maturity dates</u>
	<u>2011</u>	<u>2010</u>		
2005 Series A	\$ 211,185	244,735	3.40 - 5.00	2019
2005 Series B	28,875	43,620	3.62 - 5.00	2020
2007 Series A	257,065	265,250	4.00 - 5.25	2029
2008 Series A	200,000	420,000	Variable note	2030
2008 Series B	444,560	446,945	3.00 - 5.25	2030
2008 Series C	121,235	121,235	3.75 - 5.00	2030
2008 Series D	672,100	672,100	4.00 - 5.63	2028
2010 Series A	484,700	-	1.00 - 5.00	2022
2010 Series B	467,335	-	4.00 - 5.00	2017
Total Service Contract Refunding	<u>2,887,055</u>	<u>2,213,885</u>		
Total all issues	9,077,952	8,333,507		
Less current portion	<u>(639,529)</u>	<u>(570,633)</u>		
Total non-current revenue bonds	<u>\$ 8,438,423</u>	<u>7,762,874</u>		

A summary of changes in outstanding revenue bonds at March 31, 2011 and 2010 is as follows:

	<u>2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>2011</u>
Correctional Facilities	\$ 711,557	454	(594,414)	117,597
Youth Facilities	62,530	-	(62,030)	500
Personal Income Tax Revenue Bonds	5,043,380	1,109,420	(321,515)	5,831,285
University Facilities	91,755	1,593	(12,175)	81,173
State Office Facilities	198,674	979	(45,648)	154,005
Other Projects	11,726	236	(5,625)	6,337
Service Contract Refunding	<u>2,213,885</u>	<u>971,640</u>	<u>(298,470)</u>	<u>2,887,055</u>
Total	<u>\$ 8,333,507</u>	<u>2,084,322</u>	<u>(1,339,877)</u>	<u>9,077,952</u>

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

Revenue bonds issued by UDC on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to UDC to make payments for debt service (principal and interest) on the bonds and related expenses. Therefore, the financing of all revenue bonds is not expected to result in any net revenue or expense to UDC, since any debt service not covered by available assets is recovered by State appropriation. UDC assets related to these financings as of March 31, 2011 and 2010 are as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Due from State of New York	\$ 7,735,269	7,030,502
Debt service reserve	25,998	62,053
Cash and investments	1,416,712	1,357,968
Less accrued interest payable	(87,219)	(78,143)
Less other	<u>(12,808)</u>	<u>(38,873)</u>
Bonds payable	\$ <u>9,077,952</u>	<u>8,333,507</u>

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

As of March 31, 2011 and 2010, \$575.8 million and \$774.1 million, respectively, remained outstanding and are considered to be defeased.

**Service Contract Revenue Refunding Bonds, Series 2007A**

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

**Service Contract Revenue Refunding Bonds, Series 2008A & B**

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

**Service Contract Revenue Refunding Bonds, Series 2008C**

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

**Service Contract Revenue Refunding Bonds, Series 2008D**

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

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

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

**Service Contract Revenue Refunding Bond, Series 2010B**

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

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

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

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

In January 2008, UDC issued \$520.1 million State Personal Income Tax Series 2008A-1 and A-2. The \$486.1 million Series 2008A-1 were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of a cost of a project, consisting of the financing and refinancing of the costs of (i) financing the Empire Opportunity Fund which provides financial assistance to projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State (collectively the "EOF Project"); (ii) the capital improvement and development of arts, culture, athletic, housing, child care, education, recreational, transportation and economic development facilities within State communities under the Community Capital Assistance Program (collectively the "CCAP"); (iii) financing the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Technology Project"); (iv) the development of economic development projects, including universities development projects, environmental projects, energy projects, initiatives that promote academic research and development projects, or that improve arts and cultural facilities (collectively the "Economic Development Projects"); (v) cultural facilities (collectively the "Cultural Project"); (vi) university development (collectively the "University Project"); (vii) economic development projects

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

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

which will facilitate the creation or retention of jobs or increase business activity within downtown Buffalo, the Buffalo inner harbor area, surrounding environs (collectively the "Buffalo Project"); (viii) grants, loans or combinations thereof for community enhancement facilities (collectively the "CEFAP Project"); (ix) grants, loans or combinations thereof for strategic investment projects, including environmental projects, such as the preservation of historically significant places in New York State, and projects to conserve, acquire, develop or improve parklands, parks or public recreation areas, including economic development projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State (collectively the "SIP Project"); (x) a subsidy of State funds toward the construction of parking facilities in connection with the development of a new Yankee Stadium pursuant to the Parking Facilities Agreement (the "New Yankee Stadium Parking Facilities Project); and (xi) a subsidy of State funds toward the construction of certain infrastructure in connection with the Atlantic Yards Land Use Improvement and Civic Project (the "Atlantic Yards Infrastructure Project") and (b) to pay the costs of issuance of the Series 2008A-1 Bonds.

The \$34 million Series 2008A-2 Bonds were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of the costs of a Project, consisting of the financing and refinancing of the costs of (i) financing the taxable portion of the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively, the "Taxable Technology Project"), and (ii) taxable economic development projects which will facilitate the creation and retention of jobs or increase business activity within downtown Buffalo (the "Taxable Buffalo Projects"), and (b) to pay the costs of issuance of the Series 2008A-2 Bonds.

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

In January 2009, UDC issued \$472.2 million State Personal Income Tax Revenue Bonds Series 2009A-1 and A-2. The \$341.1 million Series 2009A-1 bonds were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i) a program designed to encourage economic development and neighborhood growth by providing municipalities with financial assistance for revitalization of commercial and residential properties within the State (collectively the "Restore Communities Project"); (ii) the New York State Technology and Development Program, which assists in financing the costs of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Technology Project"); (iii) various grants, loans or combinations thereof for economic initiatives (collectively

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

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

the "Economic Initiatives Projects"); (iv) the Investment Opportunity Fund, which will facilitate the creation or retention of jobs or increase investment or business activity within various municipalities or regions of the State, or academic research and development efforts that promote the development of life sciences and high technology initiatives including genomics and biotechnology research (collectively the "Investment Opportunity Project"); (v) the Upstate Regional Blueprint Fund, which consists of financing the Upstate Revitalization Fund and, in support thereof, focuses on intellectual capital capacity building, investment products, applied research and development, opportunity for foreign investment and international exports and infrastructure requirement to, attract new business or expand existing business in the Upstate region of the State (collectively the "Upstate Blueprint Regional Project"); (vi) the development of various economic development projects including specifically the following: EDF Capital Project, Downstate Regional Project, Upstate City by City project, Luther Forest Infrastructure Project and the New York State Economic Assistance Project (collectively the "Economic Development Project"); (vii) the New York State Economic Development Program, which consists of financing various economic development projects outside cities with a population of one million or more (collectively the "NYS Economic Development Program Project"); (viii) the regional Economic Program, which assists in financing grants, loans or combinations thereof for related cost of design, financing, site investigations, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, and infrastructure improvement (collectively the "Regional project"); (ix) a subsidy of State funds toward certain infrastructure in connection with the construction of the new stadium in Queens, including, but not limited to, site acquisition, infrastructure, public amenities, environmental remediation, parking, transit improvements, extraordinary piling (collectively the "Queens Stadium Project"); (x) a subsidy of State funds toward the construction of parking facilities in connection with the development of the new Yankee Stadium pursuant to the Parking Facilities Agreement (collectively the "New Yankee Stadium Parking Facilities Project"); and (xi) a subsidy of State funds toward the construction of certain infrastructure in connection with the Atlantic Yards Land Use Improvements and Civic Project (collectively the "Atlantic Yards Infrastructure Project"); and (b) to pay the costs of issuance of the Series 2009A-1 Bonds incurred by the Corporation.

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

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

In January 2009, UDC issued \$607 million State Personal Income Tax Revenue Bonds Series 2009B-1 and B-2. The \$500.2 million Series 2009B-1 were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i) correctional facilities capital projects (collectively the "Correctional Facilities Project"); (ii) youth facilities capital projects (collectively the "Youth Facilities Project"); (iii) equipment purchases for State departments and agencies, units of the State University of New York and City University of New York and the unified court system (collectively the "Equipment Project"); (iv) State police facilities (collectively the "State Police Project"); (v) public protection facilities in the Division of Military and Naval Affairs (collectively the "Military and Naval Project"); (vi) certain capital projects for office technology facilities, debt services and leases within the State (collectively the "OFT Project"); (vii) New York Court Facilities (collectively the "Court Facilities Project"); and (viii) certain improvements to State office buildings and other facilities within the State (collectively the "State Project"); and (b) to pay the costs of issuance of the Series 2009B-1 Bonds incurred by the Corporation.

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

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

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

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

economic development projects and certain housing assistance projects and programs; and (iii) certain other projects and programs supported by State funds; and (b) to pay the costs of issuance of the Series 2009 Bonds incurred by the Corporation.

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

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2011 are as follows (in thousands):

	<u>Principal</u>	<u>Interest (a)</u>	<u>Total</u>
2012	\$ 639,529	418,520	1,058,049
2013	644,495	389,214	1,033,709
2014	627,250	363,569	990,819
2015	601,920	336,761	938,681
2016	<u>571,085</u>	<u>309,311</u>	<u>880,396</u>
	<u>\$ 3,084,279</u>	<u>1,817,375</u>	<u>4,901,654</u>

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2016 are approximately \$6.0 billion.

Interest Rate Transactions

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 million Citibank and \$45 million Goldman Sachs swaps were terminated. In August 2008, \$125 million Morgan Stanley swaps were terminated. In June 2008, \$250 million Bear Stearns and \$205 million Goldman Sachs swaps were also terminated. As of March 31, 2011, the total amount of swap terminations related to the original 2002B Bonds was \$800 million. The remaining \$200 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

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

The Corporation, in fiscal 2005, entered into additional interest swap agreements in connection with its \$649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and its \$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 and \$3.9 million Lehman Brothers

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 11 - Revenue Bonds, Continued**

**Interest Rate Transactions, Continued**

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. Under the Series 2004A-3, the Corporation receives a variable rate equivalent to 65% of the 30 day USD-LIBOR rate and pays a fixed rate to the related counter parties of 3.490%.

The remaining \$224 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. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

In March of fiscal year 2010, the remaining \$1.7 million interest rate swap agreement in connection with State Personal Income Tax Revenue Bonds 2004A-4 (State Facilities and Equipment) retired following the March 15, 2010 maturity and amortization of the underlying bond issue.

The fair value of the swaps is recorded as a receivable from or a payable to the State.

**Note 12 - New York Convention Center Development Corporation Revenue Bonds**

In November 2005, CCDC a subsidiary of UDC, issued its \$700 million Series 2005 Revenue Bonds (Hotel Unit Fee secured) for the purpose of (a) financing the capital expansion project, which consists of expanding and renovating the Jacob K. Javits Convention Center located in New York City; (b) prepaying a loan made to the New York Convention Center Operating Corporation used to acquire a property for eventual use in the project; (c) funding certain reserves; and (d) paying for the cost of issuance. The bonds are/will be repaid from revenues already received and to be received by CCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

As of March 31, 2011 and 2010, CCDC's outstanding Revenue Bonds were as follows (in thousands):

<u>2005 Revenue Bonds</u>	<u>Balances</u>		<u>Coupon rates (%)</u>	<u>Remaining payments to</u>
	<u>2011</u>	<u>2010</u>		
Serial	\$ 95,615	95,710	3.50-5.00	2045
Term	50,930	50,930	5.00	2030
Term	121,000	121,000	5.00	2035
Term	357,270	357,270	5.00	2044
Term	<u>75,000</u>	<u>75,000</u>	4.75	2045
	699,815	699,910		
Unamortized bond premium	<u>10,679</u>	<u>11,244</u>		
	\$ <u>710,494</u>	<u>711,154</u>		

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

Early redemption options may commence in 2016 at 100%.

**Note 13 - Other Project Revenue Bonds**

Other project revenue bonds have been issued and secured loans originated in connection with specific economic development projects. The balances on these bonds at March 31, 2011 and 2010 is as follows (in thousands):

	<u>2011</u>	<u>2010</u>
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)	\$ 1,473	1,726
Less current portion	<u>(263)</u>	<u>(253)</u>
Non-current portion	\$ <u>1,210</u>	<u>1,473</u>

At March 31, 2011, required annual principal payments on other project revenue bonds for the next five years and thereafter are as follows (in thousands):

2012	\$ 263
2013	283
2014	305
2015	329
2016	<u>293</u>
	\$ <u>1,473</u>

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 14 - Other Financing**

On March 30, 2007, UDC completed the purchase of the James A. Farley Post Office Building and entered into two financing agreements totaling \$205 million. The first note of \$75 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 million. Payments on the note were/are due on the following dates: (a) On June 30, 2007, \$45 million as adjusted by the March 30, 2007 Consumer Price Index ("CPI"); (b) On June 30, 2008, \$30 million as adjusted by the March 30, 2007 CPI; (c) the remaining balance of \$55 million is being deferred and payable from tenants' project revenues as described more fully in the funding agreement.

In February 2010, the first note of \$75 million was repaid by the issuance of a second note for \$91.8 million, which requires semi-annual payments of interest at the rate of 5.875% per annum. Principal, together with all accrued but unpaid interest is due February 2013.

Pursuant to a June 18, 2010 agreement between the Moynihan Station Development Corporation ("MSDC") and the Port Authority of New York and New Jersey ("Port Authority"), MSDC received \$6 million from the Port Authority to advance the Moynihan Station project. Under this agreement, the Port Authority can provide up to a maximum of \$6.75 million in funding and MSDC shall reimburse the Port Authority no later than April 1, 2015 from eligible monies as described more fully in the funding agreement.

**Note 15 - Pollution Remediation Obligations**

In the years ended March 31, 2011 and 2010, the Corporation recognized pollution remediation expense provisions of \$.4 million and \$12.6 million, respectively, and a corresponding liability was recorded in the Statements of Net Assets. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of March 31, 2011 and 2010, the pollution remediation liability totaled \$28.2 million and \$51.4 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, removal of other hazardous materials and soil contamination.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 16 - Other Liabilities**

Other liabilities at March 31, 2011 and 2010 consist of the following (in thousands):

	<u>2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>2011</u>
Advances from Port Authority Regional Economic Development Fund - revolving loan program	\$ 132,211	-	(49,193)	83,018
Restricted funds for grants, economic development programs and special projects/bonds	65,803	8,101	-	73,904
Deferred gain on sale leaseback (a)	42,270	-	(12,647)	29,623
Other loan and revolving loan programs - advances from State	2,623	-	(476)	2,147
Postemployment benefits other than pensions	11,228	4,155	-	15,382
Other accruals	<u>72,302</u>	<u>48,181</u>	<u>(8,574)</u>	<u>111,910</u>
	326,437	<u>60,437</u>	<u>(70,890)</u>	315,984
Less current portion	<u>(71,444)</u>			<u>(75,701)</u>
Non-current portion	\$ <u>254,993</u>			<u>240,283</u>

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

**Note 17 - Appropriations Repayable Under Prescribed Conditions**

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

The appropriations repayable under prescribed conditions originated from the recapitalization of UDC. The State advanced \$162.6 million to UDC and \$198.1 million to PFA. The PFA obligation was assigned to UDC creating a total amount repayable of \$360.7 million. Since 1978, UDC has repaid \$163.1 million to the State. The remaining balance of the obligation at March 31, 2011 and 2010 amounted to \$197.6 million.

The "prescribed conditions" for repayment require that at no time shall the Director of the Budget of the State of New York ("Director") request repayment of an amount greater than the excess of

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 17 - Appropriations Repayable Under Prescribed Conditions, Continued**

UDC's aggregate revenues and receipts from operations (excluding borrowings, proceeds of sales of assets and appropriations) during its preceding fiscal year over the aggregate amount payable by UDC during the preceding fiscal year for expenses (including reasonable reserves for contingencies as approved by the Director) and debt service (without regard to any refunding of debt).

The prescribed conditions for repayment were modified in 1997 by the provisions of Chapter 309 of the Laws of 1996 which require that resources provided by UDC's corporate purpose bonds, issued in connection with a 1996 refunding of UDC's original bonds (the "1996 Refunding") be made available to assist the New York Job Development Authority ("JDA") in meeting its lawfully incurred debts and obligations through the year 2011, and to provide up to \$10 million over four years for its Housing Repairs and Modernization Fund.

As of March 31, 2011, UDC may be required, if and when notified by the State, to provide JDA, through 2011, with annual amounts ranging from \$10 million to \$10.7 million, depending on anticipated annual cash flow savings from the 1996 Refunding. No payments were made to JDA in 2011 and 2010. No additional payments are anticipated during 2012.

It is also anticipated that the \$25.9 million due from JDA for reimbursement to UDC for administrative expenses incurred on behalf of JDA as of March 31, 2011 (\$25.2 million as of March 31, 2010), may also be credited against appropriations repayable under prescribed conditions. UDC has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by UDC on its investment portfolio. The cumulative interest earned, which covers the last sixteen fiscal years, is \$7.3 million.

**Note 18 - Retirement Plans**

**(a) Deferred Compensation and Postemployment Benefits**

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

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

**(b) State Employees' Retirement System**

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

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 18 - Retirement Plans, Continued**

**(b) State Employees' Retirement System, Continued**

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

Participating employers are required under the NYSRSSL to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the NYSRSSL. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Systems Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, and Tier V employees who contribute 3% of their salary. The total payroll for all UDC employees for the years ended March 31, 2011 and 2010 amounted to \$27.1 million and \$29.9 million, respectively. UDC is billed annually for retirement contributions, which amounted to \$3.3 million and \$2.2 million, for the years ended March 31, 2011 and 2010, respectively.

**Note 19 - Commitments and Contingencies**

Commitments and contingencies at March 31, 2011 consist of the following:

**(a) Legal Actions**

**General**

UDC and its subsidiaries have been named as defendants in legal actions arising in the normal course of its economic development operations, ranging from breach of contract to condemnation proceedings in connection with various economic development initiatives. In addition, defendants in mortgage loan foreclosure proceedings initiated by UDC have asserted defenses and counterclaims for damages. UDC believes that the ultimate outcome of the legal actions arising in the normal course of operations will not have a material adverse effect on its financial condition.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 19 - Commitments and Contingencies, Continued**

**(a) Legal Actions, Continued**

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

**Lower Manhattan Development Corporation**

Of note are exposures arising from the ownership of 130 Liberty Street, New York, New York, by Lower Manhattan Development Corporation ("LMDC"), a UDC subsidiary. Numerous consultants and contractors have been hired in connection with the abatement and deconstruction of the building located on the parcel ("Building"). LMDC is named in numerous pending and threatened claims related to activities at the Building. A number of personal injury claims have been filed, some related to a fire at the Building on August 18, 2007, and some related to other construction accidents at the Building. All such claims are being vigorously defended by LMDC. Several personal injury claims have been settled conditionally without contribution by LMDC. Management believes that the ultimate outcome of all of these legal actions will not have a material adverse effect on either LMDC's or UDC's financial condition.

LMDC also faces claims on contracts associated with work at the Building. In August 2007, The John Galt Corp. ("Galt"), a subcontractor, was terminated for cause by Bovis Lend Lease LMB ("Bovis"), LMDC's general contractor at the building. Galt instituted an action against Bovis and LMDC for breach of contract and wrongful termination, among other claims. By order date April 26, 2009, LMDC's motion to dismiss Galt's claims against it was dismissed. Additionally, LMDC was sued by Bovis and Bovis Sureties ("Sureties") regarding alleged change orders, extra work, extensions of time and excusable delay, all claimed to be the basis for additional payments due to Bovis above the lump sum amount specified in its contract. By order dated January 22, 2010, the Sureties' claims against LMDC were dismissed in part. The Sureties' claim for subrogation is outstanding.

In addition to litigation, a number of inquiries and investigations have arisen in connection with the August 2007 fire and related matters. Outside counsel and consultants have assisted LMDC Staff and the LMDC Board of Directors in responding to these inquiries and investigations. One of the investigations stemming from the fire has resulted in guilty pleas to fraud charges by one individual and several companies. Through the Asset Forfeiture Unit of the New York County District Attorney's Office, LMDC has recovered funds as a matter of restitution in connection with the guilty pleas of the companies involved. In addition, LMDC will obtain the right to pursue through judicial process additional recovery from the individual.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 19 - Commitments and Contingencies, Continued**

**(a) Legal Actions, Continued**

On August 11, 2009, Galt, Regional Scaffolding & Hoisting Co., Inc. and Windham Construction Corp. instituted a lien foreclosure action The John Galt Corp., et al., v. Bovis Lend Lease LMB, Inc., et al., Index No. 602568/09 (Sup. Ct. N.Y. County). On October 23, 2009, Bovis instituted a contract action against LMDC - Bovis Lend Lease (LMB), Inc. v. Lower Manhattan Development Corp., Index No. 603243/09 (Sup. Ct., N.Y. County) - seeking a judgment in excess of \$80 million against LMDC. LMDC is vigorously defending these lawsuits. Funds have been set aside at LMDC covering \$30 million in anticipated additional payments, and LMDC's Board of Directors authorized an additional \$37.5 million for such payments at their June 2008 meeting, based upon revised estimates. The total cost of the project would ultimately be reduced by the amount of any recovery or reimbursement received as a result of claims or litigation involving Bovis, insurance and certain contracts relating to 130 Liberty Street.

Also of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including UDC. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction of New York et al., Index No. 04/002750 (Sup. Ct. N.Y., Nassau County), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately \$20 million for the alleged negligent design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. The County asserts causes of action against UDC, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project contractors for negligence, breach of contract, negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, UDC agreed to indemnify DASNY from project related liabilities. UDC and DASNY are being defended in this lawsuit by the Office of the New York Attorney General. UDC and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. To date, settlement discussions and mediation efforts have not been productive. Discovery is in progress. At present no precise assessment of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss can be made.

**Atlantic Yards Project**

A number of proceedings have been commenced with respect to the Atlantic Yards Land Use improvement and Civic Project ("Atlantic Yards Project"), including one in which UDC sought to exercise powers under Article 4 of the Eminent Domain Procedure Law. On December 23, 2009, UDC commenced such an action to obtain title to the Phase I condemnation properties needed for the Atlantic Yards Project. Certain respondents pleaded counterclaims alleging that the Modified General Project Plan (the "2009 MGPP") effected such significant changes to the Atlantic Yards Project as to nullify prior determinations made by UDC concerning the Project.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 19 - Commitments and Contingencies, Continued**

**(a) Legal Actions, Continued**

On March 1, 2010, the Supreme Court dismissed the counterclaims and issued an Order vesting title to UDC of certain properties in the area roughly bounded by Flatbush and 4<sup>th</sup> Avenues to the west, Vanderbilt Avenue to the east, Atlantic Avenue to the north, and Dean and Pacific Streets to the south. On April 2, 2010, certain of the respondents filed a notice of appeal to the Appellate Division for the Second Department. Subsequently, however, they failed to take any action to perfect their appeal and the time for doing so has expired. The remaining issues before the Court in this proceeding concern disputes with respect to the dollar amounts of the condemnees' just compensation awards and access to certain adjoining properties for construction purposes. One claim seeks a declaration that UDC did not condemn the plaintiff's entire interest in certain property within the project site. The case was dismissed but the plaintiff has appealed.

It is important to note that UDC intends to pay all interested parties just compensation for the interests taken in accordance with all applicable legal requirements. The pre-vesting appraisals of the property interests that UDC acquired valued those interests at approximately \$48 million. Claims for additional compensation have been asserted by virtually all of the condemnees but the specific amounts claimed will be known only after the parties exchange appraisals. Approximately \$45 million has been paid as advance payments of these claims.

Also concerning the Atlantic Yards Project are two proceedings - Develop Don't Destroy (Brooklyn), Inc. et al. v. Empire State Development Corporation, et al., Index No. 1143631/2009 (Sup. Ct. N.Y., N.Y. County) and Prospect Heights Neighborhood Development Council, Inc., et al. v. Empire State Development Corporation, et al., Index No. 116323/2009 (Sup. Ct. N.Y. County) - that raise similar claims under the State Environmental Quality Review Act ("SEQRA") and the Urban Development Corporation Act ("UDCA"). Among other things, the plaintiffs in these lawsuits allege that UDC was required to prepare a supplemental environmental impact statement before affirming the 2009 MGPP for the Atlantic Yards Project on September 17, 2009. The suits seek to nullify the 2009 MGPP on that basis, in addition to making other arguments as to the invalidity of the 2009 MGPP.

On March 12, 2010, the Supreme Court dismissed both proceedings. In each case, the petitioners filed a notice of appeal to the Appellate Division for the First Department and motion for reargument and to renew before Justice Friedman. Petitioners have not yet taken any action to perfect their appeals. On November 9, 2010, Justice Friedman issued an Order (the "Remand Order") granting petitioners' motions to reargue and renew to the extent of remanding certain issues to UDC for further consideration. The Remand Order did not enjoin the continued construction of the Atlantic Yards Project and did not vacate the 2009 MGPP or any other project approval or document. On December 16, 2010, Justice Friedman granted

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

**Note 19 - Commitments and Contingencies, Continued**

**(a) Legal Actions, Continued**

UDC's motions for leave to appeal the Remand Order. On January 18, 2011, petitioners served supplemental petitions challenging the December 16, 2010 findings and the 2009 MGPP under SEQRA and the UDCA. Briefing and oral argument with respect to the supplemental petitions has been completed. These supplemental petitions are before Justice Friedman for a decision.

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

**(b) Letters of Credit and Credit Guarantees**

UDC maintains two irrevocable letters of credit each for \$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 UDC.

**(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 31, 2011 is approximately \$421.9 million.

**Note 20 - Accounting Standards Issued But Not Yet Implemented**

GASB Statement No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions," enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. The requirements of the Statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," amends GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions," to allow agent employers that have individual employer OPEB plans, with less than 100 plan members to use the alternate measurement method, regardless of the total number of plan members in the multiple-employer OPEB plan in which it participates. The requirements of this statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements, Continued

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

GASB Statement No. 59 - "Financial Instruments Omnibus" updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The requirements of this statement are effective for periods beginning after June 15, 2010, which is the fiscal year beginning April 1, 2011 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 60 - "Accounting and Financial Reporting for Service Concession Arrangements" addresses how to account for and report service concession arrangements, a type of public-private partnership. This statement provides guidance on whether the transferor or the operator should report the capital asset in its financial statements, when to recognize up-front payments from an operator as revenue and how to record any obligation of the transferor to the operator. The requirements of this statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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

GASB Statement No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB) and American Institute of Certified Public Accountants (AICPA) pronouncements. This statement incorporates into the GASB's authoritative literature the applicable guidance issued before November 30, 1989 from FASB Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure. The requirements of the statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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

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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 and Subsidiaries:

We have audited the 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 year ended March 31, 2011, and have issued our report thereon dated June 3, 2011. We conducted our audit 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.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

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

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

Williamsville, New York  
June 3, 2011

**TOSKI, SCHAEFER & CO., P.C.**  
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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

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

We have examined the New York State Urban Development Corporation and Subsidiaries' (the "Corporation") a component unit of the State of New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York during the year ended March 31, 2011. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Corporation's compliance with specified requirements.

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the year ended March 31, 2011.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grants, and abuse that are material to 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 and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Corporation complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

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

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

Williamsville, New York  
June 3, 2011