NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2010 and 2009

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Contents

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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, 2010 and 2009, 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 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, 2010 and 2009, 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 May 28, 2010, 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, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 15 is not a required part of the basic consolidated financial statements but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). 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
May 28, 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 year ended March 31, 2010. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

During fiscal 2010, the New York State Urban Development Corporation, doing business as Empire State Development Corporation ("ESDC") continued its efforts to promote economic development throughout the State. The Corporation's goal is to create and retain jobs and to reinvigorate economically distressed areas of 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.

In addition to assisting individual companies, 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.

In March 2010, Brooklyn Bridge Park Development Corporation ("BBPDC") outlined a four year phasing plan and the first portion of Pier 1, a part of Phase One of the Plan, was opened. Pier 1 features the first of the Park's waterfront promenades, lawns, a playground and a set of granite steps for park goers to sit and enjoy the park. Also in March 2010, the Governor and the Mayor announced an agreement on the long-term development, funding and governance of Brooklyn Bridge Park in a Modified General Project Plan. The modifications include a Memorandum of Understanding between the State and City which would create a not-for-profit City entity to manage the development and operation of the Park.

Governors Island Preservation and Education Corporation ("GIPEC") has established four key strategies for the redevelopment of Governors Island which are: 1. Creation of a world class park and open space; 2. Expansion of early Island uses and increase visitation to the Island; 3. Public investment in Island infrastructure and historic stabilization and 4. Execution of a multi-phased, mixed-use development strategy. Progress has been made in the execution of each of these four phases with visitation to the Island having increased thirty-four fold since 2005. Shortly after the close of March 31, 2010 fiscal year, the State, the City and ESDC agreed to a Term Sheet that provides for the transfer of the portion of Governors Island owned by GIPEC and substantially all of the other assets of GIPEC to a new City-controlled entity for $1.00. The parties continue to work on the details of the transfer which is forecasted to take place in July 2010.

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESDC 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 $33.2 million and $38.2 million for the years ended March 31, 2010 and 2009, respectively. In fiscal 2009, the Boards of NYCCDC and ESDC approved a General Project Plan for the renovation and expansion of the Javits Convention Center. The plan includes a renovation of the existing Javits Center and 100,000 square foot expansion. Staff of NYCCDC anticipates that the expansion will be completed in June 2010 and the renovation in December 2013.

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESDC completed the purchase of the James A. Farley Post Office building in fiscal 2007 as a part of the redevelopment of Moynihan Station. ESDC incurred financing of $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, 2010, the remaining combined balance of this debt is $146.8 million. Both of the financing agreements mature in 2013. The project has been redesigned by MSDC in conjunction with the Port Authority of New York and New Jersey and is refocused on building a new train hall within the Farley Post Office Building. It will create transportation infrastructure that will significantly enhance the capacity, safety and security of the commuter/intercity rail hub.

New York State designated ESDC as the lead agency in providing assistance to business affected by the events of September 11, 2001. The United States Department of Housing and Urban Development ("HUD") gave ESDC 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"). This subsidiary is assisting in the economic recovery and revitalization of lower Manhattan following the events of September 11, 2001. HUD has provided LMDC the authority to draw grants up to $2.783 billion to fund these efforts. As of March 31, 2010, more than $2.632 billion of the total $3.483 billion in funding has been disbursed by both ESDC and LMDC to qualified businesses and individuals.

During fiscal 2010, Erie Canal Harbor Development Corporation ("ECHDC") reached several key milestones and has successfully undertaken various activities regarding the revitalization of prime waterfront lands within the City of Buffalo's historic Erie Canal District. Some of its accomplishments are adoption of a General Project Plan and State Environmental Quality Review Act ("SEQRA") findings, securing funding from the New York Power Authority ("NYPA") for the project and negotiating various contracts and agreements to move development forward.

Other examples of redevelopment include 42nd Street Development, Harriman Research and Technology Development, Queens West Development, USA Niagara Development, the Atlantic Yards project, Midtown Plaza/PAETEC, Columbia University Educational Mixed-Use development Land-Use Improvement and Civic Project, International Business Machines and Global Foundries/AMD.

ESDC'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 60 housing projects and realized revenues from Federal subsidies and repayments from the owners of the projects through its subsidiary, the New York State Mortgage Loan Enforcement and Administration Corp.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2010 and 2009:

SUMMARY OF CONSOLIDATED BALANCE SHEETS

	2010	2009
Assets	(In thousands)	
Current assets	$ 3,601,497	2,696,732
Non-current assets:		
Investment securities - restricted	293,868	307,552
Loans and leases receivable	403,947	399,364
Due from State of New York	6,479,902	6,440,684
Due from Port Authority of New York and New Jersey	208,921	220,829
Due from New York Job Development Authority	25,186	34,000
Capital assets, net	1,302,552	1,089,047
Other assets	116,271	72,822
Total non-current assets	8,830,647	8,564,298
Total assets	$ 12,432,144	11,261,030
Liabilities and Net Assets		
Current liabilities	1,154,802	1,038,603
Non-current liabilities	9,080,082	8,254,153
Total liabilities	10,234,884	9,292,756
Minority interest	124,845	117,595
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	504,677	488,104
Total restricted	702,231	685,658
Invested in capital assets, net of related debt	1,155,722	959,836
Unrestricted for specific purposes	214,462	205,185
Total net assets	2,072,415	1,850,679
Total liabilities and net assets	$ 12,432,144	11,261,030

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

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

	2010	2009
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 14,063	15,801
Housing companies	13,201	17,392
Nonresidential projects	14,800	14,836
Hotel tax revenue	33,258	38,150
Reimbursed grants	442,755	215,173
Economic development grants	438,304	521,941
State appropriation for subsidiaries	17,907	1,082
Interest on revenue bonds	84,015	73,220
Other revenue	127,805	267,060
Total operating revenue	1,186,108	1,164,655
Operating expenses:		
Interest expenses on corporate purpose bonds and others	13,527	17,120
Interest expense on corporate loan - Farley	4,221	4,031
Economic development grants	424,524	522,965
Interest on revenue bonds	84,015	73,206
Reimbursed grant expenses	284,074	59,833
General and administrative expenses	57,480	62,489
Subsidiary program and related administrative expenses	72,669	81,776
Pollution remediation	12,629	38,750
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,066)	75,899
Depreciation	12,947	13,440
Total operating expenses	962,020	949,509
Minority interest	(7,250)	(8,934)
Operating income	216,838	206,212
Non-operating revenue	292,628	363,433
Non-operating expenses	(287,730)	(353,240)
Excess of revenue over expenses	221,736	216,405
Net assets at beginning of year	1,850,679	1,634,274
Net assets at end of year	$ 2,072,415	1,850,679

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $143.5 million and $141.5 million at March 31, 2010 and 2009, respectively. The slight increase is primarily due to the receipt of certain non-recurring payments related to various subsidiary programs, offset by several disbursements, among which is the transfer of $3.9 million to a restricted fund as required by Government Accounting Standard Board ("GASB") Statement No. 45 - "Accounting and Financial Reporting by Employees for Post-Employment Benefits Other Than Pensions" for the fiscal year ended March 31, 2010.

Capitalization

As of March 31, 2010, UDC had $218.6 million, net of unamortized premium, in Corporate Purpose debt outstanding. No new Corporate Purpose debt was issued during fiscal 2010 and 2009. In addition, it had $8.3 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 the financing of the State facilities, economic development activities, certain housing assistance projects and programs and other State-supported financing activities. The Revenue Bonds debt service is paid by New York State.

In December of fiscal year 2010, ESDC issued $672.7 million State Personal Income Tax Revenue Bonds (General Purpose) Series 2009C, $223.2 million (Federally Taxable) Series 2009D and $576.1 million (Federally Taxable - Build America Bonds) Series 2009E for a variety of purposes as directed by New York State. The purposes include State projects including certain correctional facilities, youth facilities, court facilities, State police facilities, the provisions of grants to local governmental entities for various purposes, equipment purchases for State departments and agencies, 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 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 other State-supported financing activities.

In January of fiscal year 2009, ESDC issued $472.2 million State Personal Income Tax Revenue Bonds (Economic Development and Housing) Series 2009A-1 and Series 2009A-2 (Federally Taxable) and $607.0 million State Personal Income Tax Revenue Bonds (State Facilities and Equipment) Series 2009B-1 and B-2 (Federally Taxable) for a variety of purposes as directed by New York State. The purposes include community and other economic development projects, technology and development programs, economic initiatives, Upstate Revitalization, costs in connection with new Queens Stadium infrastructure and construction, new Yankee Stadium parking facilities, correctional and youth facilities capital projects, equipment capital purchases for State departments and agencies, costs in connection with State Police facilities, Division of Military and Naval Affairs, New York State Court facilities and certain improvements to State office buildings.

ESDC refunded Revenue Bonds during fiscal year 2009 using the proceeds and net original premium of the issuance of Service Contract Revenue Refunding bonds as follows: in June 2008, refunded $875 million of Correction and Youth Facilities Services Contract Revenue series 2002B using the proceeds of the issuance of the Service Contract Revenue Refunding Series 2008A-1-A-5 & 2008B; in September 2008, refunded $125 million of Correctional and Youth Facilities Services Contract Revenue Series 2002B-1 using the proceeds of the issuance of the Service Contract Revenue Refunding Series 2008C; in November 2008, refunded $664 million of Correctional and Youth Facilities Services Contract Revenue Series 2003A using the proceeds of the issuance of the Service Contract Revenue Refunding Series 2008D.

In addition, in both fiscal years 2009 and 2010, in the months of November 2008, June 2009 and March 2010, ESDC defeased $31.4 million, $22.1 million and $19.6 million respectively of the Corporate Purpose Senior Lien Bond Series 1996 with funds received primarily from repayments of the Corporation's housing mortgages that secured the Corporate Purpose Bonds.

Also outstanding are $699.9 million in Revenue Bonds issued by the New York Convention Center Development Corporation in November 2005.

Interest Rate Transactions

Certain segments of the $1.0 billion interest rate swap agreement in connection with Correctional and Youth Facilities Services Contract Revenue Series 2002B were terminated during fiscal year 2009. In June 2008, $250 million Bear Stearns and $205 million Goldman Sachs swaps were terminated and in August 2008, $125 million Morgan Stanley swaps were also terminated. The total amount of termination was $580.0 million. The remaining $420.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bond (Variable Rate Demand Notes) which also partially funded the 2002B refunding.

Under the swaps, the Corporation has 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. The Corporation is fully reimbursed by the State for all payments related to the swaps.

The Corporation, in fiscal 2005, entered into an additional interest swap agreement 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 interest 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 Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. Under the Series 2004A-2 (forward starting March 2014), 2004A-4 and 2004B-2 swap arrangements, the Corporation pays or will pay a variable rate equivalent to the weighted average of the USB-BMA Municipal Swap Index to the counter parties and receives or will receive a fixed rate payment ranging from 2.575% to 4.967%. 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 maturities of the swaps are equal to the maturities of Series 2004A and 2004B bonds, with amortization ranging from 2005 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 2004-A4 (State Facilities and Equipment) matured 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.

Investment Ratings

As of March 31, 2010, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Capital Facility Revenue Bonds Series 98 Refunding	N/A	AA-	A+
Correctional Facility Service Contract - Series B	N/A	AA-	A+
Personal Income Tax Revenue Bonds Series 2003 A1	N/A	AAA	AA-
Corporate Purpose Subordinate Lien 1996	A2	A	A
Corporate Purpose Senior Lien 1996	Aaa	AAA	AAA

Excess of Revenue over Expenses

The excess of revenue over expenses for the year ended March 31, 2010 was $221.7 million compared with $216.4 million in the prior year. This is primarily due to an increase in certain non-recurring revenue received relating to the operating activities of various subsidiaries.

Revenue

Operating revenue in the 2010 fiscal year approximated $1.186 billion compared with $1.165 billion in fiscal 2009.

Increases in operating revenue primarily occurred in the following categories:

- Reimbursed grants funding increased by $227.5 million primarily due to an increase in HUD program grant proceeds to both LMDC and ESDC of $223.1 million reflecting an increase in activity in the programs. In addition, there was an increase of $4.4 million in reimbursable revenue and subsidiary grant income related to Brooklyn Bridge Park Development (City Funds) and Governors Island Preservation and Education Corporation (State and City Funds).
- Interest on revenue bonds increased by $10.7 million primarily due to the issuance of new bonds to fund the Economic Development Programs.
- The State appropriation for programs and subsidiaries increased by approximately $16.8 million. This was due to the re-allocation of $5.3 million of funds previously recorded for old/terminated projects and $11.5 million of new economic development loans, primarily through the Metropolitan Economic Revitalization Fund, the Regional Revolving Loan Fund and various economic development projects.

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from HUD subsidy and housing companies decreased by $5.9 million due to the continuing reduction in interest rates and housing receipts.
- Hotel tax revenue associated with the New York Convention Center decreased by $4.9 million due to the continuing decline in worldwide economic conditions.
- Economic development grants funding decreased by $83.6 million primarily due to a decrease of $151.4 million in activity within existing grant programs. Partially offsetting this was increased activity of approximately $67.8 million in new grants, such as Advance Micro Devices, Infotonics Technology Center and IBM.
- Other revenues decrease of $139.2 million is primarily due to the following: adjustments in fiscal 2009 to capitalize expenses related to Governors Island Preservation and Education Corporation ($42.4 million) and the establishment of a mortgage receivable for the Project Improvement Program ($70.3 million); reductions in subsidiaries activities of $31.4 million; the reductions in other revenue were offset by an increase of $7.1 million attributable to rental fees, pilot payments, and income from developers.

Non-operating Revenue for fiscal year 2010 approximated $292.6 million compared to $363.4 million in fiscal 2009. The decrease of $70.8 million is primarily due to an overall decrease in investment rates as well as a reduction in the Corporation's debt service as a result of the refunding of certain segments of the bond portfolio.

Expenses

Operating expenses in the fiscal year ended March 31, 2010 approximated $962.0 million compared with $949.5 million in fiscal 2009. The increase is primarily the result of changes in the following areas:

- Reimbursed grant expenses increased by approximately $224.2 million resulting from an increase in the disbursement of HUD grants by LMDC.
- Interest on revenue bonds increased by $10.8 million primarily due to an increase in debt service on new bonds issued.
- Interest expense related to Corporate Purpose Bonds decreased by approximately $3.6 million due to the maturity of outstanding debt.
- Economic development grants decreased by approximately $98.4 million due to fewer new grants/programs requested as well as smaller increments for all grants/programs.
- General and administrative expenses decreased by approximately $5.0 million primarily due to a reduction in general office expenses, outside services and equipment and related expenses within corporate departments as well as certain subsidiaries.

- Subsidiary Program and Related Administrative Expenses decreased by $9.1 million due to a reduction in operations of several large subsidiary projects such as LMDC, 42nd Street Development and Governors Island Preservation and Education Corporation.
- Pollution remediation expense/liability, required by GASB Statement No. 49 - "Accounting and Financial Reporting for Pollution Remediation Obligations" decreased by approximately $26.1 million. The reduction is due to the fact that fiscal 2009 was the year this GASB became effective and the recorded expense in that year brought forward all potential remediation exposure.
- Provisions for losses (recoveries) on loans and leases receivable decreased by $79.9 million primarily due to the establishment of a reserve in fiscal 2009 for the Project Improvement Program.

Non-Operating Expenses approximated $287.7 million compared to $353.2 million in fiscal 2009. The decrease of $65.5 million is due primarily to the refunding of certain bonds and retirement of the associated debt service. These costs are provided by the State and therefore, have no negative impact on the Corporation's financial statements.

Anticipated Future Transactions

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, ESDC senior management during fiscal 2008, decided to sell the 125 Maiden Lane property.

Unit 8A was sold during the fiscal year 2009 for a total sales price of $11.1 million. Units 7A - 12A were sold in fiscal year 2008 for a combined total sales price of $40.0 million. The remaining units, 9A and 14A, were being marketed for sale through a one year contract with a broker, GVA Williams, who was solicited through an RFP process. In March 2010, the ESDC Board of Directors approved a one year contract with Time Equities Inc. ("TEI") to continue marketing the units. TEI was solicited through an RFP process. A potential sale of unit 9A may be realized in fiscal 2011.

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, 2010.

In May 2010, ESDC sold approximately $500 million Service Contract Revenue Refunding Bonds, Series 2010A Subseries 2010A-1 & 2010A-2 amortizing annually until 01/01/2022. The proceeds of the bonds will be used to refund the Corporation's Service Contract Revenue Refunding Bonds Sub-Series 2008A-2, 2008A-3, and 2008A-4 bonds, and to refund the New York State Housing Finance Agency's Series 2003A, 2003B, 2003C, 2003D, 2003E, and 2003G refunding bonds. The bonds are secured by payments received under a service contract between the Corporation and the State, where once the appropriations are made, New York State's obligation to make payments is absolute and unconditional. As a result, the bonds are rated AA- by both S&P and Fitch Ratings.

ESDC assumed the lease on the Victoria Theatre from SONYMA on May 1, 2009. This lease term is anticipated to last approximately two years or until the Harlem Community Development Corporation ("HCDC"), a subsidiary of ESDC and owner of the property, is able to locate a developer to develop the property. Currently, the responsibilities of ESDC include securing, insuring and maintaining the property at an estimated annual cost of $.025 million.

As part of the Governor's City-by-City initiative, which is part of an upstate focus to help target the State's resource on assisting each region's unique potential to spur private investment and job creation, the Corporation is working with the City of Rochester ("City") to revitalize the Midtown Plaza area. The City has acquired the properties and funds appropriated in the 2008 - 2009 New York State budget (and re-appropriated in subsequent years) continue to fund the asbestos abatement and demolition of the buildings which was initiated during fiscal 2010. This work will make it a shovel ready site for the world headquarters of PAETEC, a significant telecommunications company in the U.S.

In April 2010, the State, the City and ESDC agreed to a Term Sheet that provides for the transfer of the portion of Governors Island owned by GIPEC and substantially all of the other assets of GIPEC to a newly created City controlled entity. The new entity will assume the island operations, maintenance and all costs associated with the development and operation of the island. It is anticipated that the transfer will become effective in July 2010.

In March 2010, a Modified General Project Plan was adopted for Brooklyn Bridge Park Development Corporation, which included a Memorandum of Understanding between the State and the City which would create a not-for-profit City entity to manage the development and operation of the Park. It is anticipated that the new City entity, Brooklyn Bridge Park Operating Entity ("BBPOE"), will take control in July 2010.

As a result of the passage of the American Recovery and Reinvestment Act of 2009, ESDC is receiving additional funding of approximately $5.3 million for its Weatherization Assistance Program, which is run through its subsidiary, HCDC. This new funding must be used in two years and is forecasted to provide assistance to 772 housing units.

Request for Information

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

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2010 and 2009

Assets	2010	2009
	(In thousands)	
Current assets:		
Cash and equivalents	$ 2,492	1,440
Temporary investments	141,044	140,015
	143,536	141,455
Cash and investment securities restricted or designated for:		
Corporate purpose bonds	93,824	90,427
Revenue bonds	1,357,968	770,641
Economic development	215,356	326,282
Subsidiary and other purposes	1,046,293	1,082,680
	2,713,441	2,270,030
Loans and leases receivable:		
Residential mortgage loans	9,700	11,450
Non-residential, principally leases	3,150	2,900
Economic development loans	1,407	1,510
	14,257	15,860
Due from State of New York	550,600	183,527
Due from Port Authority of New York and New Jersey	21,612	21,612
Other current assets	158,051	64,248
Total current assets	3,601,497	2,696,732
Investment securities restricted or designated for:		
Debt service reserve - corporate purpose bonds	231,815	243,337
Debt service reserve - revenue bonds	62,053	64,215
	293,868	307,552
Loans and leases receivable:		
Residential mortgage loans	293,301	318,470
Non-residential, principally leases	44,133	47,846
Economic development loans	66,513	33,048
	403,947	399,364
Due from State of New York	6,479,902	6,440,684
Due from Port Authority of New York and New Jersey	208,921	220,829
Due from New York Job Development Authority	25,186	34,000
Real property and office equipment, net	1,302,552	1,089,047
Other assets	116,271	72,822
Total non-current assets	8,830,647	8,564,298
Total assets	$ 12,432,144	11,261,030

(Continued)

See accompanying notes to consolidated financial statements.

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

Liabilities and Net Assets	2010	2009
	(In thousands)	
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Corporate purpose bonds	$ 30,225	28,975
Revenue bonds	570,633	491,922
Other project revenue bonds	244	226
Other financing	55,000	55,000
	656,102	576,123
Accounts payable and accrued expenses	262,397	181,057
Grants payable	69,959	108,415
Interest payable	94,900	94,730
Other current liabilities	71,444	78,278
Total current liabilities	1,154,802	1,038,603
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Corporate purpose bonds	188,348	259,913
Revenue bonds	7,762,874	6,855,302
Project revenue bonds - New York Convention Center Development Corporation	711,154	711,810
Other project revenue bonds	1,482	1,716
Other financing	91,820	85,000
	8,755,678	7,913,741
Repayable to related governmental entities	18,016	29,914
Pollution remediation liability	51,395	69,782
Other liabilities	254,993	240,716
Total non-current liabilities	9,080,082	8,254,153
Total liabilities	10,234,884	9,292,756
Minority interest	124,845	117,595
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted	504,677	488,104
Total restricted	702,231	685,658
Invested in capital assets, net of related debt	1,155,722	959,836
Unrestricted for specific purposes	214,462	205,185
Total net assets	2,072,415	1,850,679
Commitments and contingencies (note 19)		
Total liabilities and net assets	$ 12,432,144	11,261,030

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, 2010 and 2009

	2010	2009
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 14,063	15,801
Housing companies	13,201	17,392
Nonresidential projects	14,800	14,836
Hotel tax revenue	33,258	38,150
Reimbursed grants	442,755	215,173
Economic development grants	438,304	521,941
State appropriation for subsidiaries	17,907	1,082
Interest on revenue bonds	84,015	73,220
Other revenue	127,805	267,060
Total operating revenue	1,186,108	1,164,655
Operating expenses:		
Interest related to:		
Corporate purpose bonds	13,527	17,120
Corporate loan	4,221	4,031
Economic development grants	424,524	522,965
Interest on revenue bonds	84,015	73,206
Reimbursed grant expenses	284,074	59,833
General and administrative expenses	57,480	62,489
Subsidiary program and related administrative expenses	72,669	81,776
Pollution remediation	12,629	38,750
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,066)	75,899
Depreciation	12,947	13,440
Total operating expenses	962,020	949,509
Minority interest	(7,250)	(8,934)
Operating income	216,838	206,212

(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

	2010	2009
	(In thousands)	
Non-operating revenue:		
Interest on revenue bonds	$ 286,403	333,705
Interest and finance income earned on investment of revenue bond proceeds	1,686	11,990
Other investment income, including change in fair value	4,539	17,738
Total non-operating revenue	292,628	363,433
Non-operating expenses:		
Interest on revenue bonds	319,352	332,951
Other costs on revenue bonds	(31,622)	20,289
Total non-operating expenses	287,730	353,240
Non-operating income	4,898	10,193
Excess of revenue over expenses	221,736	216,405
Net assets at beginning of year	1,850,679	1,634,274
Net assets at end of year	$ 2,072,415	1,850,679

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2010 and 2009

	2010	2009
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 42,064	48,029
State appropriation received for interest on debt	84,015	73,220
Other operating receipts	127,805	267,060
Cash received from hotel tax revenue	33,964	39,512
Grants received	785,852	770,579
Interest payments on corporate purpose bonds	(15,744)	(17,898)
Interest payments on revenue bonds	(84,015)	(73,206)
Payments for general and administrative expenses	(30,712)	(122,366)
Grant payments	(780,225)	(708,074)
Payments for pollution remediation	(33,099)	(25,861)
Net cash provided by operating activities	129,905	250,995
Cash flows from non-capital financing activities:		
Increase (decrease) in other liabilities	7,443	(5,105)
Retirement of corporate purpose bonds	(70,315)	(58,709)
Retirement of other project revenue bonds and mortgages	(216)	(210)
Net cash provided by (used in) non-capital financing activities	(63,088)	(64,024)
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	1,471,935	2,745,275
Retirement of revenue bonds	(485,652)	(2,058,826)
Accrued interest payable on special revenue bonds	2,387	13,787
Bond proceeds - New York Convention Center Development Corporation, net of issuing costs	(656)	(566)
Advances on behalf of State of New York for special projects	(406,291)	(547,939)
Net cash provided by capital financing activities	581,723	151,731

(Continued)

See accompanying notes to consolidated financial statements.

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

	2010	2009
	(In thousands)	
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	$ 20,992,710	15,896,242
Purchase of investment securities	(21,423,466)	(16,032,865)
Investment income, net	4,898	10,193
Cash payments on behalf of the New York Job Development Authority	8,814	(708)
Payments received from projects financed by corporate revenue bonds	30,382	47,093
Collections on economic development loans	(41,194)	(82,350)
Net activity on economic development projects	6,820	(20,000)
Investment in real property and office equipment	(226,452)	(155,357)
Net cash used in investing activities	(647,488)	(337,752)
Net increase in cash and equivalents	1,052	950
Cash and equivalents at beginning of year	1,440	490
Cash and equivalents at end of year	$ 2,492	1,440
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	216,838	206,212
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	12,947	13,440
Minority interest	7,250	8,934
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(4,066)	75,899
Changes in:		
Accounts payable and accrued expenses	81,340	(113,613)
Grants payable	(38,456)	(23,930)
Interest payable	(2,217)	(778)
Pollution remediation liability	(18,387)	12,889
Due from Port Authority of New York and New Jersey	11,908	11,450
Other current assets	(93,803)	55,829
Other assets	(43,449)	4,663
Net cash provided by operating activities	$ 129,905	250,995

See accompanying notes to consolidated financial statements.

Note 1- Corporate Background and Activities

The New York State Urban Development Corporation ("UDC" or the "Corporation"), which together with its subsidiaries does business as the Empire State Development Corporation ("ESDC"), 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 the operations of CCDC. 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 primarily is provided 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 Brooklyn Bridge Park Development Corporation, Harlem Community Development Corporation, New York Convention Center Development Corporation, Moynihan Station Development Corporation, Erie Canal Harbor Development, Governors Island Preservation and Education Corporation, New York Empowerment Zone Corporation and other subsidiaries with development activities throughout the State.

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development, Continued

Lower Manhattan Development Corporation ("LMDC") was created as an ESDC 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 $314 million and $101 million were received and disbursed during the years ended March 31, 2010 and 2009, respectively.

Additionally in 2001, ESDC was directly appropriated $700 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $1.2 million and $0.8 million was received and disbursed during the years ended March 31, 2010 and 2009, respectively. As of March 31, 2010, $11.5 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 amortize 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 the Governmental Accounting Standards Board ("GASB") as well as with authoritative pronouncements applicable to nongovernmental entities (e.g., Financial Accounting Standards Board Statements) that do not conflict with GASB pronouncements.

Note 2 - Summary of Significant Accounting Policies, Continued

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

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

(b) 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. Interest earning investment contracts, 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.

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 2010 and 2009, UDC received from the State $880.8 million and $699.8 million, respectively.

Amounts received from the State were used to meet principal payments of $430.2 million and $341.6 million in fiscal 2010 and 2009, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2010 and 2009 UDC applied $31.6 million and $20.3 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 June 2009 and March 2010, UDC defeased $22.1 million and $19.6 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.

In November 2008, UDC defeased $31.4 million of the 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.

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, 2010 and 2009, construction costs incurred in the amount of approximately $197.2 million and $137.5 million, respectively, were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of $32.6 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 2011.

(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.

Note 2 - Summary of Significant Accounting Policies, Continued

(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-2, 2004A-3, 2004A-4 and Series 2004B-2 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.

(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.

(o) Subsequent Events

The Corporation has evaluated events after March 31, 2010, and through May 28, 2010, 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, 2013. 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; and
- Certificates of deposit.

Investment securities cost and fair value at March 31, 2010 and 2009 consisted of the following (in thousands):

	2010		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal Agency obligations	$ 3,091,969	3,085,904	(6,065)
Restricted cash	62,449	62,449	-
Total	$ 3,154,418	3,148,353	(6,065)

	2009		
	Cost	Fair value	Unrealized gain
U.S. Government and Federal Agency obligations	$ 2,664,776	2,666,530	1,754
Restricted cash	51,067	51,067	-
Total	$ 2,715,843	2,717,597	1,754

Note 4 - Fair Value of Financial Instruments, Continued

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 $3.086 and $2.667 million at March 31, 2010 and 2009, respectively.

Investment securities were reported at fair value in the consolidated balance sheets at March 31, 2010 and 2009 as follows (in thousands):

		2010	2009
Current Investments:			
Temporary investments	$	141,044	140,015
Cash and investment securities restricted or designated for:			
Corporate purpose bonds		93,824	90,427
Revenue bonds		1,357,968	770,641
Economic development		215,356	326,282
Subsidiary and other purposes		1,046,293	1,082,680
		2,713,441	2,270,030
Long-Term Investments - investment securities restricted or designated for:			
Debt service reserve - corporate purpose bonds		231,815	243,337
Debt service reserve - revenue bonds		62,053	64,215
		293,868	307,552
Total investment securities	$	3,148,353	2,717,597

Restricted or designated investment securities held by UDC include cash and equivalents and investment securities amounting to $1,046.3 million and $1,082.7 million at March 31, 2010 and 2009, respectively. These amounts at March 31, 2010 and 2009 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

		2010	2009
Subsidiary/Programs/Purposes:			
42nd Street Development Project Corporation	$	191,439	150,844
Governors Island Preservation and Education Corporation		19,503	46,726
New York Empowerment Zone Corporation		25,442	15,477
Queens West Development Corporation		25,810	20,698

Note 4 - Fair Value of Financial Instruments, Continued

		2010	2009
Harlem Community Development Corporation	$	5,556	3,771
Enterprise Community		1,033	1,108
USA Niagara Development Corporation		14,304	16,477
Lower Manhattan Development		4,612	3,558
New York Convention Center Development Corporation		604,758	666,697
Moynihan Station (James A. Farley Post Office Building)		36,299	29,902
Brooklyn Bridge Park		11,821	19,374
ESDC One Bryant Park		12,883	15,821
ESDC 125 Maiden Lane		49,386	49,812
ESDC Vark Riverview II Housing Rehabilitation		2,913	3,235
ESDC Project Repair Program		6,649	6,626
ESDC Buffalo Inner Harbor Development Corporation		2,558	3,386
ESDC Erie Canal Harbor Development Corporation		8,342	10,207
ESDC OPEB Liability Account		11,237	7,300
ESDC Brooklyn Arena Project		1,130	-
Columbia University Manhattan Campus		546	285
NYSUDC Housing Disbursement		150	200
Housing and Economic Development Loan Escrow		3,327	3,918
ESDC New York		3,065	3,068
UDC Housing Resyndication and Project Improvement		2,371	2,791
ESDC Dorado Warburton Housing Rehabilitation, Charlotte Lake Rehabilitation and Broadway E. Rehabilitation		590	589
Other purposes		569	810
Total	$	1,046,293	1,082,680

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, 2010 and 2009 consist of the following (in thousands):

	2010		2009	
	Number	Balance	Number	Balance
Residential mortgage loans (a):				
HUD subsidized (Section 236)	55	$ 244,874	59	270,955
Non-subsidized projects	5	49,001	5	50,655
Retention Loan (Section 32 Advance)	5	9,126	5	8,310
	65	303,001	69	329,920

Note 5 - Loans and Leases Receivable, Continued

	2010		2009	
	Number	Balance	Number	Balance
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (b)	7	$ 33,112	7	35,615
Commercial leases (c)	4	12,941	4	13,863
Real estate investments (d)	4	1,230	4	1,268
	15	47,283	15	50,746
Economic development loans (e)	85	67,920	97	34,558
Total	165	418,204	181	415,224
Less current portion		(14,257)		(15,860)
Non-current portion		$ 403,947		399,364

(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 4 to 23 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, 2010, 60 residential projects (subsidized and non-subsidized), remain from the original total of 113. Of the 60, 55 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 55 and 59 Section 236 projects totaled $32.9 million and $35.3 million for the years ended March 31, 2010 and 2009, 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 $.87 million and $2.0 million for the years ended March 31, 2010 and 2009, 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 $4.2 million and $0.45 million for the years ended March 31, 2010 and 2009, respectively.

Note 5 - Loans and Leases Receivable, Continued

(b) Non-residential Lease Receivables

Nonresidential lease receivables consist of 7 projects outstanding in both 2010 and 2009 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, 2010, the remaining lease terms ranged from 1 to 13 years. There are 6 leases with the City of New York ($31.3 million) and 1 is with a bank ($1.8 million). At March 31, 2010, 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 20 years. The receivable balance of $12.9 million is amortized at an average annual interest rate of 7.5%.

(d) Real Estate Investments

Real estate investments consist of approximately 740 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 $67 million and $77 million at March 31, 2010 and 2009, 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 due from the Port Authority and revenue (included with State appropriation for programs and subsidiaries). At March 31, 2010, annual minimum payments to be received in each of the next five years is approximately $22 million per year. The net present value of the receivable balance at March 31, 2010 and 2009 amounted to $231 million and $242 million, respectively.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2010 and 2009 consists of the following (in thousands):

	Balance at March 31, 2009	Additions	Disposals	Balance at March 31, 2010
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

	Balance at March 31, 2008	Additions	Disposals	Balance at March 31, 2009
Land	$ 322,916	16,547	-	339,463
Buildings, improvements and construction in progress	563,873	129,530	(1,254)	692,149
Moynihan Station (James A. Farley Post Office Building)	298,445	9,064	-	307,509
Furniture and equipment	20,890	1,470	-	22,360
	1,206,124	156,611	(1,254)	1,361,481
Less accumulated depreciation	(258,994)	(13,440)	-	(272,434)
Totals	$ 947,130	143,171	(1,254)	1,089,047

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, 2010 and 2009 are as follows (in thousands):

	2008	Net increase (decrease)	2009	Net increase (decrease)	2010
New York Convention Center Development Corporation	$ 515,785	39,838	555,623	95,546	651,169
USA Niagara	18,716	130	18,846	22	18,868
Brooklyn Bridge Park Development Corporation	22,467	24,791	47,258	70,214	117,472
Corporate office	6,147	(1,254)	4,893	276,117	281,010
Others	758	64,771	65,529	22,642	88,171
Total	$ 563,873	128,276	692,149	464,541	1,156,690

(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	30,000	plus certain Consumer Price Index Adjustments
	175,000	
Deferred purchase price	55,000	
Total	$ 230,000	

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 has committed $140 million to be used for the purchase of the James A. Farley Post Office Building. As the funds are received, they are 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.

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, 2010 and 2009 amounted to $12.9 million and $13.4 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2010 and 2009 consist of the following (in thousands):

	2010	2009
Interest receivable	$ 2,880	2,829
Unamortized bond finance costs	23,696	24,769
Receivable from municipalities, other authorities and others	7,822	9,602
Receivable from HUD - LMDC grant	173,745	36,167
Hotel tax receivable	8,491	9,197
Due from First Trust Trustee	10,768	10,768
Prepaid insurance	7,556	8,509
Other assets - 125 Maiden Lane	17,328	17,374
Other	22,036	17,855
	274,322	137,070
Less current portion	(158,051)	(64,248)
Non-current portion	$ 116,271	72,822

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.

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, 2010 and 2009 amounted to $5.4 million and $5.1 million, respectively, of which the Corporation paid $1.4 million in each year. At March 31, 2010 and 2009, the liability for postemployment benefits other than pensions amounted to $11.2 million and $7.3 million, respectively.

The number of participants as of March 31, 2010 and 2009 was as follows:

	2010	2009
Active employees	358	358
Retired employees	150	142
Total	508	500

Funding Policy - For the years ended March 31, 2010 and 2009, 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, 2010 and 2009, the Corporation's annual OPEB cost amounted to $5.4 million and $5.1 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2010	2009
Actuarial accrued liability ("AAL"):		
Active employees	$ 30,760	22,395
Retired employees	21,544	27,271
Total	$ 52,304	49,666

Note 9 - Postemployment Benefits Other Than Pensions, Continued

		2010	2009
Underfunded actuarial accrued liability ("UAAL")	$	52,304	49,666
Normal cost at beginning of year	$	3,108	2,662
Level Dollar Amortization			
Calculation of ARC under projected Unit Credit Method:			
Amortization of UAAL over 30 years with interest to end of year	$	2,275	2,626
Normal costs with interest to end of year		3,119	2,485
Annual required contribution ("ARC")	$	5,394	5,111
Annual OPEB Cost Contribution			
Contribution for the year	$	1,470	1,388
Contribution as a percentage of required contribution		27.3%	27.2%
Annual OPEB Cost and Net OPEB Obligation			
Annual required contribution	$	5,394	5,111
Contribution made on a pay-as-you-go basis		(1,470)	(1,388)
Increase in net OPEB obligation		3,924	3,723
Net OPEB obligation at beginning of year		7,304	3,581
Net OPEB obligation at end of year	$	11,228	7,304

Actuarial methods and assumptions:

Funding interest rate	4.5%
2009/2010 trend rate (medical/drugs)	9%/8%
2010/2011 trend rate (medical/drugs)	8%/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, 2010	27 years

Note 10 - Corporate Purpose Bonds

As of March 31, 2010 and 2009, UDCs outstanding corporate purpose bonds were as follows (in thousands):

	Coupon rate	Balance at March 31, 2009	Redeemed	Defeased	Balance at March 31, 2010	Maturity date	Sinking Fund Annual Installment Requirements Ranging: From year	Amount	Through year	Amount	Final amount
1996 Senior Lien Bonds (a):											
Serial	5.125 - 5.75	$ 7,945	(7,945)	-	-	2010					
Term	5.50	94,125	(8,205)	(41,675)	44,245	2013	2011	8,460	2015	2,013	9,405
		102,070	(16,150)	(41,675)	44,245						
1996 Subordinate Lien Bonds (a):											
Serial	5.40	3,185	(3,185)	-	-	2010					
Term	5.50	44,875	(3,275)	-	41,600	2017	2011	3,365	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
		84,415	(6,460)	-	77,955						
2001 Corporate Purpose Senior Lien Bonds (b):											
Serial	4.20 - 4.80	21,155	(2,565)	-	18,590	2010-2017					
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
		38,775	(2,565)	-	36,210						
2004A Corporate Purpose Subordinate Lien Bonds:											
Serial	3.375 - 5.00	22,995	(3,800)	-	19,195	2010-2015					
Term (c)	5.125	42,800	-	-	42,800	2022	2015	2,375	2022	6,685	3,385
		65,795	(3,800)	-	61,995						
Principal outstanding		291,055	(28,975)	(41,675)	220,405						
Less unamortized bond discount		5			205						
Unamortized loss on current refundings		(2,172)			(2,037)						
Total		288,888			218,573						
Less current portion		(28,975)			(30,225)						
Total non-current liabilities		$ 259,913			188,348						

(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%.

Note 10 - Corporate Purpose Bonds, Continued

UDC issued its 2001 Corporate Purpose Senior Lien Bonds for $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 its 2004A Corporate Purpose Subordinate Lien 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 $231 million and $242 million at March 31, 2010 and 2009, respectively.

In November 2008, June 2009 and March 2010, UDC defeased $31.4 million, $22.1 million and $19.6 million, respectively, of the 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 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, 2010 are as follows (in thousands):

	Principal	Interest	Total
2011	$ 30,225	11,125	41,350
2012	32,170	9,524	41,694
2013	24,215	7,810	32,025
2014	14,600	6,808	21,408
2015	14,060	6,080	20,140
	$ 115,270	41,347	156,617

Aggregate principal maturities subsequent to 2015 are approximately $105.1 million.

Note 11 - Revenue Bonds

At March 31, 2010 and 2009, UDC's outstanding revenue bonds were as follows (in thousands):

	Balances		Coupon	Maturity
(a) Correctional Facilities	2010	2009	rates (%)	dates
Correctional Facilities Revenue Bonds				
1988 Series F	$ 13,092	17,118	zero coupon	2013
1993 Refunding	-	38,511	zero coupon	2010
1993A Refunding	62,525	79,445	5.50	2014
1998 Refunding	800	1,175	5.00 - 5.10	2012
Correctional Facilities Service Contract				
1998 - Series B	-	10,500	5.25	2010
1999 - Series C	-	6,770	5.25	2010
2000 - Series D	11,240	16,445	5.00 - 5.25	2012
2002 - Series A	533,820	556,245	5.00 - 5.50	2017
2003 - Series A	5,130	5,130	3.50 - 5.00	2011
Correctional Capital Facilities				
1993 Capital Refunding	-	1,214	zero coupon	2010
1993A Capital Refunding	83,435	108,030	5.25 - 6.50	2014
1998 Refunding	1,515	2,220	5.00	2012
Total Correctional Facilities Issues	711,557	842,803		
(b) Youth Facilities Service Contract				
1998 Series A	-	805	5.00	2010
2000 Series B	975	1,425	5.50 - 5.60	2012
2002 Series C	54,295	63,155	4.00 - 5.00	2020
2003 Series B	7,260	13,465	3.50	2011
Total Youth Facilities Service Contract Issues	62,530	78,850		

(Continued)

Note 11 - Revenue Bonds, Continued

(c) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
State Facilities and Equipment	2010	2009	rates (%)	dates
2002 Series A	$ 19,025	23,625	4.00 - 5.38	2016
2002 Series C-1	53,120	62,010	4.25 - 5.50	2019
2002 Series C-2 (Taxable)	2,765	3,600	5.15	2013
2003 Series B	35,110	42,340	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
2004 Series A-4	-	2,360	3.00	2010
2005 Series B	193,435	199,035	3.65 - 5.00	2035
2007 Series B	269,625	285,640	3.63 - 5.00	2037
2007 Series C	267,930	291,155	4.00 - 5.00	2037
2009 Series B-1	470,255	500,225	3.00 - 5.25	2038
2009 Series B-2	98,160	106,795	5.25 - 6.45	2018
Economic Development and Housing				
2002 Series D	-	1,870	4.00	2010
2003 Series A-1	19,655	24,155	3.38 - 5.00	2014
2003Series A-2 (Taxable)	59,215	72,485	4.45 - 4.85	2014
2003 Series C-1	26,895	28,455	3.20 - 5.00	2023
2003 Series C-2 (Taxable)	56,935	74,345	4.50 - 4.97	2013
2004 Series B-1	4,240	4,240	5.00	2015
2004 Series B-2	4,455	10,215	3.00 - 5.00	2015
2004 Series B-3 (Taxable)	52,000	72,425	4.22 - 4.51	2013
2005 Series A-1	115,590	120,575	3.00 - 5.00	2026
2005 Series A-2 (Taxable)	45,355	51,825	4.44 - 4.73	2016
2007 Series A	33,360	36,130	3.60 - 5.00	2023
2008 Series A-1	434,910	462,150	3.50 - 5.00	2028
2008 Series A-2	28,450	31,415	3.73 - 4.86	2018
2009 Series A-1	322,785	341,080	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	121,580	131,125	4.32 - 6.50	2019

(Continued)

Note 11 - Revenue Bonds, Continued

(c) Personal Income Tax Revenue Bonds (P.I.T.), Continued	Balances 2010	Balances 2009	Coupon rates (%)	Maturity dates
General Purpose				
2009 Series C	$ 672,680	-	2.00 - 5.00	2023
2009 Series D (Taxable)	223,175	-	0.56 - 2.48	2014
2009 Series E (Taxable Build America)	576,080	-	5.77	2039
Total Personal Income Tax Revenue Bonds	5,043,380	3,815,870		
(d) University Facilities				
Columbia University 1989 Series	38,848	41,770	zero coupon	2020
Cornell University 1989 Series	5,202	5,593	zero coupon	2020
RPI Project 1995 Series	11,455	14,880	5.50	2013
Clarkson University - Loan 1995 Series	7,715	8,280	5.50	2020
Syracuse University - Loan 1995 Series	15,050	16,770	5.50	2017
University Facilities Grants 1995 Series	13,485	14,440	5.50 - 5.88	2021
Total University Facilities Issues	91,755	101,733		
(e) State Office Facilities				
State Office Facilities Lease Rental Bonds Series A (South Mall Facility)	33,444	65,562	zero coupon	2011
State Office Facilities 1995 Refunding Series	165,230	175,850	5.60 - 5.75	2021
Total State Office Facilities Issues	198,674	241,412		
(f) Other Projects				
Sports Facility Assistance Program 1998 Series A	-	785	4.75	2010
Community Enhancement Facilities - Assistance Program 1998 Series	11,726	16,845	5.00	2014
Total Other Projects	11,726	17,630		

(Continued)

Note 11 - Revenue Bonds, Continued

(g) Service Contract Refunding	Balances 2010	2009	Coupon rates (%)	Maturity dates
2005 Series A	$ 244,735	266,545	3.40 - 5.00	2019
2005 Series B	43,620	51,175	3.62 - 5.00	2020
2007 Series A	265,250	268,655	4.00 - 5.25	2029
2008 Series A	420,000	420,000	Variable note	2030
2008 Series B	446,945	449,216	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
Total Service Contract Refunding	2,213,885	2,248,926		
Total all issues	8,333,507	7,347,224		
Less current portion	(570,633)	(491,922)		
Total non-current special project revenue bonds	$ 7,762,874	6,855,302		

A summary of changes in outstanding revenue bonds at March 31, 2010 and 2009 is as follows:

	2009	Increases	Decreases	2010
Correctional Facilities	$ 842,803	1,790	(133,036)	711,557
Youth Facilities	78,850	-	(16,320)	62,530
Personal Income Tax Revenue Bonds	3,815,870	1,471,935	(244,425)	5,043,380
University Facilities	101,733	1,936	(11,914)	91,755
State Office Facilities	241,412	2,307	(45,045)	198,674
Other Projects	17,630	236	(6,140)	11,726
Service Contract Refunding	2,248,926	-	(35,041)	2,213,885
Total	$ 7,347,224	1,478,204	(491,921)	8,333,507

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, 2010 and 2009 are as follows (in thousands):

	2010	2009
Due from State of New York	$ 7,030,502	6,624,211
Debt service reserve	62,053	64,215
Cash and investments	1,357,968	770,641
Less accrued interest payable	(78,143)	(75,754)
Less other	(38,873)	(36,089)
Bonds payable	$ 8,333,507	7,347,224

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

At March 31, 2010 and 2009, $774.1 million and $781.3 million, respectively, remained outstanding and are considered to be defeased.

Service Contract Revenue Refunding Bonds, Series 2007A

In October 2007, ESDC issued its $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 ESDC 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 2007 A Bonds. Two new asset receivable balances (due from government agencies principal and interest) were recorded in order to reflect the OGS and HFA refunding proceeds, that will offset the debt service payments monies received from the State of New York.

Note 11 - Revenue Bonds, Continued

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

In October 2007, ESDC issued its $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 others 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, ESDC issued its $486.1 million State Personal Income Tax Series 2008A-1 for the purpose of providing the Corporation with funds which will be used (a) for the payment of a cost of a project, consisting of the financing and refinancing of the costs of (i) financing the Empire Opportunity Fund which provides financial assistance to projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State (collectively the "EOF Project"); (ii) the capital improvement and development of arts, culture, athletic, housing, child care, education, recreational, transportation and economic development facilities within State communities under the Community Capital Assistance Program (collectively the "CCAP"); (iii) financing the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively the "Technology Project"); (iv) the development of economic development projects, including universities development projects, environmental projects, energy projects, initiatives that promote academic research and development projects, or that improve arts and cultural facilities (collectively the "Economic Development Projects"); (v) cultural facilities (collectively the "Cultural Project"); (vi) university development (collectively the "University Project"); (vii) economic development projects which will facilitate the creation or retention of jobs or increase business activity within downtown Buffalo, the Buffalo inner harbor area, surrounding environs (collectively the "Buffalo Project"); (viii) grants, loan or combinations thereof the community enhancements facilities (collectively the "CEFAP Project"); (ix) grants, loans or combinations thereof for strategic investments projects, including environmental projects and projects to conserve, acquire, develop or improve parklands, parks or public recreation areas and 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 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 cost of issuance of the Series 2008A-1 Bonds.

Note 11 - Revenue Bonds, Continued

Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2002B - Refunding

In June 2008, the Corporation refunded $875 million of the Correctional and Youth Facilities Contract Service Revenue Series 2002B, using the proceeds and net original issuance premium of the Service Contract Revenue Refunding Series 2008A & B.

In September 2008, the Corporation refunded $125 million of the Correctional and Youth Facilities Contract Service Revenue Series 2002B, using the proceeds and net original issuance premium of the Service Contract Revenue Refunding Series 2008C.

Correctional and Youth Facilities Service Contract Revenue Bonds, Series 2003A - Refunding

In November 2008, the Corporation refunded $663.5 million of the Correctional and Youth Facilities Contract Service Revenue Series 2003A, using the proceeds and net original issuance premium of the Service Contract Revenue Refunding Series 2008D.

Service Contract Revenue Refunding Bonds, Series 2008A & B

In January 2008, ESDC issued its $34 million State Personal Income Tax Series 2008A-2 (Federally Taxable) for the purpose of providing the Corporation with funds which will be used (a) for the financing and refinancing of the costs of (i) financing the taxable portion of the New York State 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 or retention of jobs or increase business activity within downtown Buffalo (collectively the "Taxable Buffalo Project"); and (b) to pay the cost of issuance of the Series 2008A-2 Bonds.

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

Service Contract Revenue Refunding Bonds, Series 2008C

In September 2008, UDC issued its $123.6 million Service Contract Revenue Refunding Bond, Series 2008C. The proceeds in addition to the issuance premium of the Series 2008C bonds were used for the purpose of (a) refunding certain of 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 used to refund certain bonds previously issued by the Corporation to fund a portion of the costs of certain correctional facilities of the State; and (b) paying the costs of issuance of the Series 2008C Bonds.

Note 11 - Revenue Bonds, Continued

Service Contract Revenue Refunding Bonds, Series 2008D

In November 2008, UDC issued its $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.

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

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

Note 11 - Revenue Bonds, Continued

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

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 for the cost of issuance of the Series 2009A-1 Bonds incurred by the Corporation.

The $131.1 million State Personal Income Tax Revenue Bonds Series 2009A-2 (Federally Taxable) were issued for the purpose of providing the Corporation funds which will be 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 for the cost of issuance of the Series 2009A-2 Bonds incurred by the Corporation.

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

In January 2009, ESDC issued its $500.2 million State Personal Income Tax Revenue Bonds Series 2009B-1 for the purpose of providing the Corporation funds which will be 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 project 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 for the cost of issuance of the Series 2009B-1 Bonds incurred by the Corporation.

The $106.7 million State Personal Income Tax Revenue Bonds Series 2009B-2 (Federally Taxable) were issued for the purpose of providing the Corporation funds which will be used (a) for the payment of the costs of the Project, consisting of the financing and reimbursement of the costs of certain racetrack within the State (collectively the "NYRA Project"); and (b) to pay for the cost of issuance of the Series 2009B-2 Bonds incurred by the Corporation.

Note 11 - Revenue Bonds, Continued

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

In December 2009, UDC issued its State Personal Income Tax Revenue Bonds (General Purpose), \$672.7 million Series 2009C, \$223.2 million Series 2009D and \$576.1 million Series 2009E. The Series 2009 Bonds are being issued for the purpose of providing the Corporation with funds which will be 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 of three 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 or to be incurred by the Corporation.

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2010 are as follows (in thousands):

	Principal	Interest (a)	Total
2011	\$ 570,633	370,294	940,927
2012	530,899	347,549	878,448
2013	528,785	325,059	853,844
2014	526,660	301,536	828,196
2015	504,275	277,301	781,576
	\$ 2,661,252	1,621,739	4,282,991

(a) Excludes variable rate interest.

Aggregate principal maturities subsequent to 2015 are approximately \$5.7 billion.

Note 11 - Revenue Bonds, Continued

Interest Rate Transactions

Certain segments of the $1.0 billion interest rate swap agreement in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2009. In June 2008, $250 million Bear Stearns and $205 million Goldman Sachs swaps were terminated and in August 2008, $125 million Morgan Stanley swaps were also terminated. The total amount of termination was $580 million. The remaining $420 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bond (Variable Rate Demand Notes) which also partially funded the 2002B Bonds refunding.

Under the swaps, the Corporation has 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 counterparty 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, amortization begins in 2017 with a final maturity of 2030. The Corporation is fully reimbursed by the State for all payments related to the swaps.

The Corporation, in fiscal 2005, entered into an additional interest rate swap agreement 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 interest rate swap agreement in connection with State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4, $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman brothers Derivative Projects of Series 2004A-2. Under the Series 2004A-2, (forward starting March 2014) 2004A-4 and 2004B-2 swap arrangements, the Corporation pays or will pay a variable rate equivalent to the weighted average of the USD-BMA Municipal Swap Index to the counterparties and receives or will receive a fixed interest rate payment ranging from 2.575% to 4.967%. 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 maturities of the swaps are equal to the maturities of Series 2004A and 2004B bonds with amortization ranging from 2005 to 2033. Since the Corporation is fully reimbursed by the State for all payments related to swaps, no gains or losses will be recognized.

In March 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 are recorded as a receivable from or 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; (d) and 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, maintain debt service reserve funds in accordance with the terms of the individual bond resolutions and enabling legislation.

As of March 31, 2010 and 2009, CCDC's outstanding Revenue Bonds were as follows (in thousands):

2005 Revenue Bonds	Balances 2010	Balances 2009	Coupon rates (%)	Remaining payments to
Serial	$ 95,710	95,800	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	75,000	75,000	4.75	2045
	699,910	700,000		
Unamortized bond premium	11,244	11,810		
	$ 711,154	711,810		

Interest is payable semiannually on November 15th and May 15th of each year and principal is paid annually on November 15th 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, 2010 and 2009 is as follows (in thousands):

	2010	2009
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)	$ 1,726	1,942
Less current portion	(244)	(226)
Non-current portion	$ 1,482	1,716

Note 13 - Other Project Revenue Bonds, Continued

At March 31, 2010, required annual principal payments on other project revenue bonds for the next five years and thereafter are as follows (in thousands):

2011	$ 244
2012	263
2013	283
2014	305
2015	329
Thereafter	302
	$ 1,726

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.

Note 15 - Pollution Remediation Obligations

The Corporation implemented GASB Statement No. 49 in the year ended March 31, 2009. In accordance with GASB Statement No. 49, the Corporation restated certain accounts in the year ended March 31, 2008. In the years ended March 31, 2010 and 2009, the Corporation recognized pollution remediation expense provisions of $12.6 and $38.8 million, respectively, and a corresponding liability was recorded in the Statement of Net Assets. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of March 31, 2010 and 2009, the pollution remediation liability totaled $51.4 and $69.8 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, removal of other hazardous materials and soil contamination.

Note 16 - Other Liabilities

Other liabilities at March 31, 2010 and 2009 consist of the following (in thousands):

	2009	Increases	Decreases	2010
Advances from Port Authority Regional Economic Development Fund - revolving loan program	$ 130,818	1,393	-	132,211
Restricted funds for grants, economic development programs and special projects/bonds	75,998	-	(10,195)	65,803
Deferred gain on sale leaseback (a)	54,917	-	(12,647)	42,270
Other loan and revolving loan programs - advances from State	9,856	-	(7,233)	2,623
Postemployment benefits other than pensions	7,304	3,924	-	11,228
Other accruals	40,101	32,201	-	72,302
	318,994	37,518	(30,075)	326,437
Less current portion	(78,278)			(71,444)
Non-current portion	$ 240,716			254,993

(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, ESDC 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, 2010 and 2009 amounted to $197.6 million.

Note 17 - Appropriations Repayable Under Prescribed Conditions, Continued

The "prescribed conditions" for repayment require that at no time shall the Director of the Budget of the State of New York ("Director") request repayment of an amount greater than the excess of 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 2010, and to provide up to $10 million over four years for its Housing Repairs and Modernization Fund.

As of March 31, 2010, 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 2010 and 2009. No additional payments are anticipated during 2011.

It is also anticipated that the $25.2 million due from JDA for reimbursement to UDC for administrative expenses incurred on behalf of JDA as of March 31, 2010 ($25.3 million as of March 31, 2009), 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 fourteen fiscal years, is $7.2 million.

Included with amounts due from JDA is $8.7 million at March 31, 2009, related to grant funds held by the Authority for UDC related grants for which there is no interest calculated.

Note 18 - Retirement Plans

(a) Deferred Compensation and Post-Retirement 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.

Note 18 - Retirement Plans, Continued

(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. All benefits generally vest after five years of credited service.

The Comptroller of the State of New York serves as sole trustee and administrative head of the System. Plan benefits are provided under the provisions of the New York State Retirement and Social Security Law 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.

Participating employers are required under the New York State Retirement law and Social Security law 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 New York State Retirement and Social Security Law. 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 total payroll for all UDC employees for the years ended March 31, 2010 and 2009 amounted to $29.9 million and $30.6 million, respectively. UDC is billed annually for retirement contributions, which amounted to $2.2 million and $1.9 million, for the years ended March 31, 2010 and 2009, respectively.

Note 19 - Commitments and Contingencies

Commitments and contingencies at March 31, 2010 consist of the following:

(a) Legal Actions

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, including the Times Square redevelopment project. 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.

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

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

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, and LMDC has been dismissed from one proceeding with prejudice (Rodriguez v. City of New York et al., Index No. 104734/05 (Sup. Ct. N.Y. County). 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., subcontractor (Galt), was terminated 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. 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 Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al. (New York Supreme Court, Nassau County, Index No. 04/002750). In this lawsuit, 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 Empire State Development Corporation ("ESDC"), 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, ESDC agreed to indemnify DASNY from Project-

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

related liabilities. ESDC and DASNY are being defended in this lawsuit by the Office of the New York State Attorney General. ESDC 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.

(b) Letters of Credit and Credit Guarantees

UDC maintains four unused irrevocable letters of credit with a bank for $39.8 million, $14.1 million, and two $101.1 million. These letters of credit support transactions with the New York State Insurance Fund in connection with certain correctional facility and university facility revenue bonds where in exchange for prior years advances, UDC pledged the annual stream of interest income on the debt service reserve funds. The other two support variable rate demand notes issued as of 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, 2010 is approximately $589.3 million.

Note 20 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 51 - "Accounting and Financial Reporting for Intangible Assets," establishes accounting and financial reporting requirements for intangible assets in an effort to reduce inconsistencies in accounting and financial reporting of intangible assets. The requirements of the Statement are effective for periods beginning after June 15, 2009, which is the fiscal year beginning April 1, 2010 for the Corporation. This Statement is not expected to have a material effect on the future consolidated financial statements of the Corporation.

GASB Statement No. 53 - "Accounting and Financial Reporting for Derivative Instruments," 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 instruments, and record ineffective derivative instruments at fair value. The requirements of the Statement are effective for periods beginning after June 15, 2009, which is the fiscal year beginning April 1, 2010 for the Corporation. Based on current investment policy, this statement is not expected to have a material effect on the future consolidated financial statements of the Corporation, however, derivatives have been used by the Corporation in the past, and may be again in the future.

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

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. Management has not yet determined the effect that this statement will have on the future 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.

GASB Statement No. 58 - "Accounting and Financial Reporting for Chapter 9 Bankruptcies" provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy. The requirements of the Statement are effective for periods beginning after June 15, 2009, which is the fiscal year beginning April 1, 2010 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, 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, 2010, and have issued our report thereon dated May 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Investment Guidelines for Public Authorities issued by the New York State Office of the State Comptroller.

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 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including Investment Guidelines for Public Authorities and the Corporation's investment guidelines, and other matters, noncompliance with which could have a direct and material effect on the determination of the 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, management, others within the organization, and the New York State Office of State Comptroller, and is not intended to be and should not be used by anyone other than these specified parties.

Toski, Schaefer & Co., P.C.

Williamsville, New York
May 28, 2010