DORMITORY AUTHORITY OF THE STATE OF NEW YORK

(A Component Unit of the State of New York)

Basic Financial Statements

March 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
Dormitory Authority of the
State of New York:

We have audited the accompanying statements of net assets of the Dormitory Authority of the State of New York (the Authority), a component unit of the State of New York, as of March 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows as of and for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these 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 our audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial statements referred to above present fairly, in all material respects, the financial position of the Dormitory Authority of the State of New York as of March 31, 2012 and 2011, and the respective changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 audits.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 18 and supplementary information included on page 49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

KPMG LLP

June 19, 2012

The following discussion and analysis of the Dormitory Authority of the State of New York's (the Authority) financial performance provides an overview of the Authority's activities as of and for the years ended March 31, 2012 and 2011. It should be read in conjunction with the Authority's financial statements that follow this section. This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the financial statements and the notes to the financial statements.

Background

The Authority is a public benefit corporation, an independent corporate agency with governmental functions delegated to it by the State of New York (the State) and is authorized to finance, design, construct or rehabilitate buildings for use by various public and private not-for-profit corporations. The Authority is governed by an eleven member Board composed of the Director of the Budget of the State, the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her, five members appointed by the Governor, with the advice and consent of the Senate, one member appointed by the Temporary President of the State Senate, and one member appointed by the Speaker of the State Assembly. All bonds and notes issued by the Authority must also be approved by the New York State Public Authorities Control Board.

The Authority's two primary lines of business are debt issuance and construction management, which are supported by the Authority's operating activities. As a part of its operating activities, the Authority also devotes significant efforts to the administration of grants authorized by the State and payable to a variety of public and private grantees from proceeds of bonds issued by the Authority. The Authority has a staff of approximately 550 located in three main offices (Albany, New York City and Buffalo) and at approximately 57 field sites across the State. The Authority's clients, both public and private, typically have alternatives to using the debt issuance and construction management services offered by the Authority. The Authority provides services to various clients under three major programs: public facilities; nonprofit healthcare; and independent colleges, universities and other nonprofits.

The Authority is a conduit debt issuer. Under existing law, and assuming continuing compliance, interest on most bonds and notes issued by the Authority has been determined to be excludable from gross income for federal tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. All of the Authority's outstanding bonds and notes, both fixed and variable rate, are special obligations payable solely from payments required to be made by or for the account of the client for which the particular special obligations were issued. Such payments are pledged or assigned to the trustees for the holders of the respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. In addition, certain bond and note issues are also secured by other forms of credit enhancement, including municipal bond insurance and bank letters of credit. The Authority monitors the ratings of credit enhancers and takes appropriate actions as required under the provisions of the related bond documents. The Authority also works closely with its clients to identify and implement strategies, including refunding variable rate bonds with fixed rate bonds, converting to another allowable interest rate mode, and adding or substituting liquidity facilities, to mitigate the effects of downgrades to credit enhancer ratings as well as other market changes. See note 9 for a further discussion of bonds and notes outstanding.

All of the required secondary market disclosures for the Authority's private not-for-profit clients is done through Digital Assurance Certification LLC (DAC) which can be accessed through the following website: www.dacbond.com. The Authority also provides additional information on its website at www.dasny.org. In addition, while certain information pertaining to the Authority's debt issuances for the Authority's public clients is available on the DAC website, the Authority, the bond trustee and the client each have responsibilities with respect to the filing of material event notices and providing updated financial and operational data with the nationally recognized municipal securities information repositories.

On December 10, 2010, the Authority was authorized to establish a subsidiary for the purpose of limiting the potential liability of the Authority in connection with its exercise of remedies against North General Hospital as a result of the Hospital's default under its loan agreements and mortgages with the Authority. As a result, on March 17, 2011, such subsidiary, NGHP Holding Corporation (NGHP), was established in the form of a public benefit corporation. On June 30, 2011, NGHP acquired the assets and liabilities of North General Hospital in accordance the plan of liquidation approved by the Bankruptcy Court. See notes 5 and 6 for further information concerning NGHP.

Overview of Financial Statements

The Authority has elected the option under Governmental Accounting Standards Board (GASB) Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, to report conduit debt in its financial statements. The Authority's basic financial statements are a compilation of approximately two thousand separate self-balancing restricted accounts related to each of the individual series of outstanding bonds and notes and over one hundred individual program operating accounts. The vast majority of activity reflected in the basic financial statements relates to the monies held in the restricted accounts associated with the issuance of bonds and notes, the collection of monies in accordance with the provisions of the underlying loan or financing agreements, the payments to the holders of the bonds and notes in accordance with the provisions of the underlying bond and note resolutions, and disbursements for construction and other loan activity. The Authority does not commingle cash and investments.

This report consists of three parts: management's discussion and analysis, financial statements, and the notes to the financial statements. The three financial statements presented are as follows:

- Statements of Net Assets – These statements present information reflecting the Authority's assets, liabilities, and net assets. Net assets represent the amount of total assets less liabilities and are one way to measure the Authority's financial position. Net assets are comprised of Unrestricted net assets, related to the Authority's operating activities, Restricted net assets, related to monies held in the restricted bond and note accounts, and amounts Invested in capital assets, primarily related to its Albany headquarters building. Restricted net assets remain in the accounts of each of the individual bond or note issues and accrue to the benefit of the respective client institutions. At final maturity, the restricted net assets of an individual bond or note issue will be $0.
- Statements of Revenues, Expenses, and Changes in Net Assets – These statements reflect the operating and nonoperating revenues and expenses of the Authority for each year. The majority of the Authority's revenues and expenses relate to activity in the restricted accounts of the individual series of bonds and notes, not operating accounts. In some years, revenues exceed expenses in restricted bond and note accounts. In other years, expenses exceed revenues in restricted bond and note accounts as accumulated

revenues are utilized for various purposes. Restricted net assets remain in each of the individual bond or note issues and accrue to the benefit of the respective client institutions.

- Statements of Cash Flows – The statements of cash flows are presented using the direct method of reporting which reflects cash flows from operating, noncapital financing, capital financing, and investing activities. Cash collections and payments are reflected in these statements to arrive at the net increase or decrease in cash for each year.

The financial statements provide information about the Authority's overall financial condition. The notes provide explanations and more details about the content of the financial statements.

The Authority is considered a special-purpose government engaged in business-type activities and follows financial reporting for enterprise funds. The basic financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the Authority is included in the basic financial statements of the State as a discrete component unit.

Authority Operating Activities

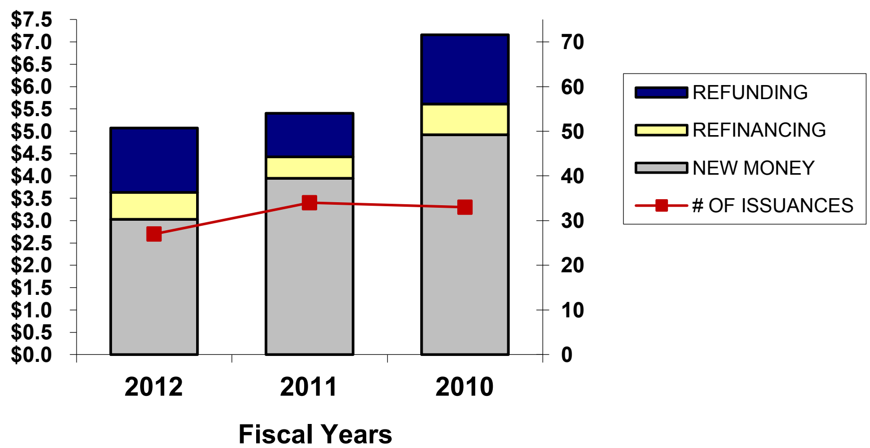
Authority operating revenues primarily result from financing fees and annual administrative fees related to ongoing bond management and construction services provided. Generally, clients qualified under Section 501(c)(3) of the Internal Revenue Code (e.g., private colleges, universities, hospitals, nursing homes, etc.) and the State's mental hygiene program pay a financing fee upon issuance of the bonds and notes and an ongoing annual administrative fee throughout the term of the bonds and notes based on a percentage of either the original par amount or the par amount outstanding, depending on the fee structure in place when the bonds or notes were issued. Other public clients (e.g., City University of New York, State University of New York, New York State agencies, and court facilities) pay fees in amounts equal to their respective allocable amount of Authority operating expenses.

The Authority's internal operating expenses totaled approximately $76 million and $79 million during 2012 and 2011, respectively, of which 13% was allocable to programs with fixed fees and 87% was allocable to programs with fees equal to allocable expenses.

Debt Issuance Activities

The Authority's debt issuance activity for the last three years is illustrated below. Refunding debt represents bonds and notes issued to refund previously issued Authority bonds and notes. Refinancing debt represents bonds and notes issued to refund non-Authority bonds and notes and to pay off commercial loans and lines of credit. New money debt represents bonds and notes issued to fund new money capital projects and grants.

Par Amount of Bonds and Notes Issued
($ in billions)



An additional $171 million and $355 million par of reofferings occurred during 2012 and 2011, respectively, and is not included in the debt issuance activities noted above. The reofferings were carried out to effectuate conversions of variable to fixed rate bonds, changes in interest rate modes for variable rate bonds, and changes in liquidity facilities for variable rate bonds.

The par amounts of bonds and notes issued are reflected in the following tables. These amounts vary from the amounts reflected in the caption "Proceeds from issuance of bonds and notes" on the Statements of Cash Flows due to the inclusion in the Statement of Cash Flows of the net premium received on the bonds and notes issued.

Par Amount of Bonds Issued By Program

Program		2012 (in millions) Refunding debt	Refinancing debt	New money debt	Program total	Number of issuances
Nonprofit healthcare	$	408.6	111.0	315.5	835.1	5
Independent colleges, universities and other nonprofits		114.3	52.0	284.9	451.2	10
Public facilities						12
State University of New York		838.1	—	1,055.1	1,893.2	
City University of New York		—	—	369.0	369.0	
NYS agencies		59.7	—	971.8	1,031.5	
Municipal facilities		24.8	433.6	34.9	493.3	
Total par	$	1,445.5	596.6	3,031.2	5,073.3	27

Program		2011 (in millions) Refunding debt	Refinancing debt	New money debt	Program total	Number of issuances
Nonprofit healthcare	$	377.8	—	345.0	722.8	8
Independent colleges, universities and other nonprofits		143.4	157.0	1,073.2	1,373.6	15
Public facilities						11
State University of New York		97.8	—	1,210.3	1,308.1	
City University of New York		196.2	—	444.5	640.7	
NYS agencies		1.6	20.9	826.3	848.8	
Municipal facilities		161.3	302.0	47.2	510.5	
Total par	$	978.1	479.9	3,946.5	5,404.5	34

Program		2010 (in millions) Refunding debt	Refinancing debt	New money debt	Program total	Number of issuances
Nonprofit healthcare	$	89.8	2.3	540.8	632.9	6
Independent colleges, universities and other nonprofits		197.5	259.1	1,574.5	2,031.1	17
Public facilities						10
State University of New York		446.4	—	768.9	1,215.3	
City University of New York		—	—	679.6	679.6	
NYS agencies		814.0	143.2	1,204.7	2,161.9	
Municipal facilities		—	284.4	151.9	436.3	
Total par	$	1,547.7	689.0	4,920.4	7,157.1	33

(Continued)

The par amount of bonds and notes retired during the past three years is presented in the following tables. Scheduled redemptions represent bonds and notes retired in accordance with their respective bond amortization schedules. Amounts refunded by Authority bonds represent bonds retired through the issuance by the Authority of refunding bonds. The amount refunded by the Authority presented below varies from the amount of refunding debt issued shown in the previous table due to several factors. Original issue premium on the new bonds issued, balances available in existing bond accounts, and lower interest rates on the new bonds as compared to interest rates on the prior bonds each reduce the amount of new bonds required to refund the prior bonds. The need to fund bondholder interest on the prior bonds through the final redemption dates increases the amount of new bonds required to refund prior bonds. Generally, the amount of refunding debt issued by the Authority is less than the amount of bonds refunded by the Authority. Amounts defeased and redeemed early include amounts retired with funds deposited by institutions of which some amounts have been funded through the issuance of debt by other issuers or financial institutions, amounts retired with proceeds from the sales of mortgages securing the related bonds, and amounts retired with existing assets in bond accounts. There are many reasons why bonds may be refunded or retired early by the issuance of Authority bonds including changes in interest rates. There are also many reasons why bonds may be defeased or redeemed early by the issuance of debt by other issuers or financial institutions including changes in interest rates and increasing competition in the market for the issuance of tax-exempt bonds.

Par Amount of Bonds Retired by Major Program

		2012 (in millions)			
Program		**Scheduled redemptions**	**Refunded by Authority bonds**	**Defeasances and early redemptions**	**Total bonds retired**
Nonprofit healthcare	$	463.4	441.2	560.0	1,464.6
Independent colleges, universities and other nonprofits		290.9	119.3	68.2	478.4
Public facilities					
State University of New York		241.2	978.6	5.1	1,224.9
City University of New York		231.2	—	—	231.2
NYS agencies		541.2	63.3	6.1	610.6
Municipal facilities		156.9	27.5	14.2	198.6
Total par	$	1,924.8	1,629.9	653.6	4,208.3

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Par Amount of Bonds Retired by Major Program

Program		2011 (in millions) Scheduled redemptions	Refunded by Authority bonds	Defeasances and early redemptions	Total bonds retired
Nonprofit healthcare	$	326.8	414.6	775.5	1,516.9
Independent colleges, universities and other nonprofits		263.9	152.4	42.0	458.3
Public facilities					
State University of New York		295.2	104.9	—	400.1
City University of New York		173.7	252.2	—	425.9
NYS agencies		496.0	1.5	0.9	498.4
Municipal facilities		145.4	160.3	3.8	309.5
Total par	$	1,701.0	1,085.9	822.2	3,609.1

Program		2010 (in millions) Scheduled redemptions	Refunded by Authority bonds	Defeasances and early redemptions	Total bonds retired
Nonprofit healthcare	$	364.9	102.6	121.4	588.9
Independent colleges, universities and other nonprofits		254.7	345.5	3.6	603.8
Public facilities					
State University of New York		254.4	483.5	—	737.9
City University of New York		233.8	—	—	233.8
NYS agencies		454.0	834.9	—	1,288.9
Municipal facilities		108.8	—	—	108.8
Total par	$	1,670.6	1,766.5	125.0	3,562.1

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Bonds and notes outstanding increased by $865 million (2%) from 2011 to 2012 with increases in all public programs and decreases in private institution programs. Bonds and notes outstanding increased by $1.8 billion (4%) from 2010 to 2011 with increases in all programs except nonprofit healthcare. More detailed information regarding the Authority's bonds and notes outstanding is presented in note 9 to the financial statements.

Bonds and Notes Outstanding by Program as of March 31

(in millions)

		2012	2011	2010
Nonprofit healthcare	$	7,849.9	8,479.3	9,282.9
Independent colleges, universities, and other nonprofits		10,786.7	10,813.9	9,889.1
Public facilities:				
State University of New York		8,896.7	8,238.2	7,330.1
City University of New York		4,241.4	4,103.6	3,888.9
NYS agencies		8,892.9	8,462.2	8,112.0
Municipal facilities		3,826.3	3,531.7	3,330.6
Total	$	44,493.9	43,628.9	41,833.6

Construction Management Activities

One of the Authority's primary lines of business is providing direct project management and ancillary services on projects for a variety of clients. Approximately 80% and 81% of the Authority's personal service expense during 2012 and 2011, respectively, was associated with this line of business. For Authority-managed projects, these services include design preparation and review, bidding, negotiating, and administering contracts for construction, acquisition of furniture, fixtures and equipment, and on-site project management. The Authority provides project management services on most of the projects that are funded from bonds and notes issued by the Authority on behalf of its public clients, except for State University of New York educational facilities, Boards of Cooperative Educational Services (BOCES), and public school districts. The Authority also provides its construction management services to certain other public clients, with the cost of such projects funded with amounts provided by the clients. The Authority's statutorily authorized client base has grown over time. At any given time, the Authority manages approximately 500 active projects of varying sizes ranging from several thousand dollars to several hundred million dollars.

Construction disbursements for projects managed by the Authority decreased by $53 million (5%) from 2011 to 2012 with decreases in all programs except State mental hygiene facilities. Construction disbursements for projects managed by the Authority increased by $50 million (5%) from 2010 to 2011 with increases for State University of New York and City University of New York projects offset by decreases for State mental hygiene facilities, various other State programs and independent colleges, universities and other nonprofits. Certified construction disbursements represent disbursements for projects where the Authority does not provide any construction services, but rather, the individual clients manage the construction and the Authority reimburses the clients for expenditures made. This category includes construction disbursements made on behalf of most

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nonprofit healthcare, independent colleges, universities, and other nonprofits, State University of New York educational facilities, certain State grant programs, public school districts, BOCES and Special Act School Districts. The balance of other construction and loan disbursements includes costs of issuance, loan payoffs, defeasance of non-Authority bonds and notes, and capitalized fees and expenses. The total disbursements presented below are included in Construction, loan and other disbursements and Project funds disbursed on the Statements of Cash Flows.

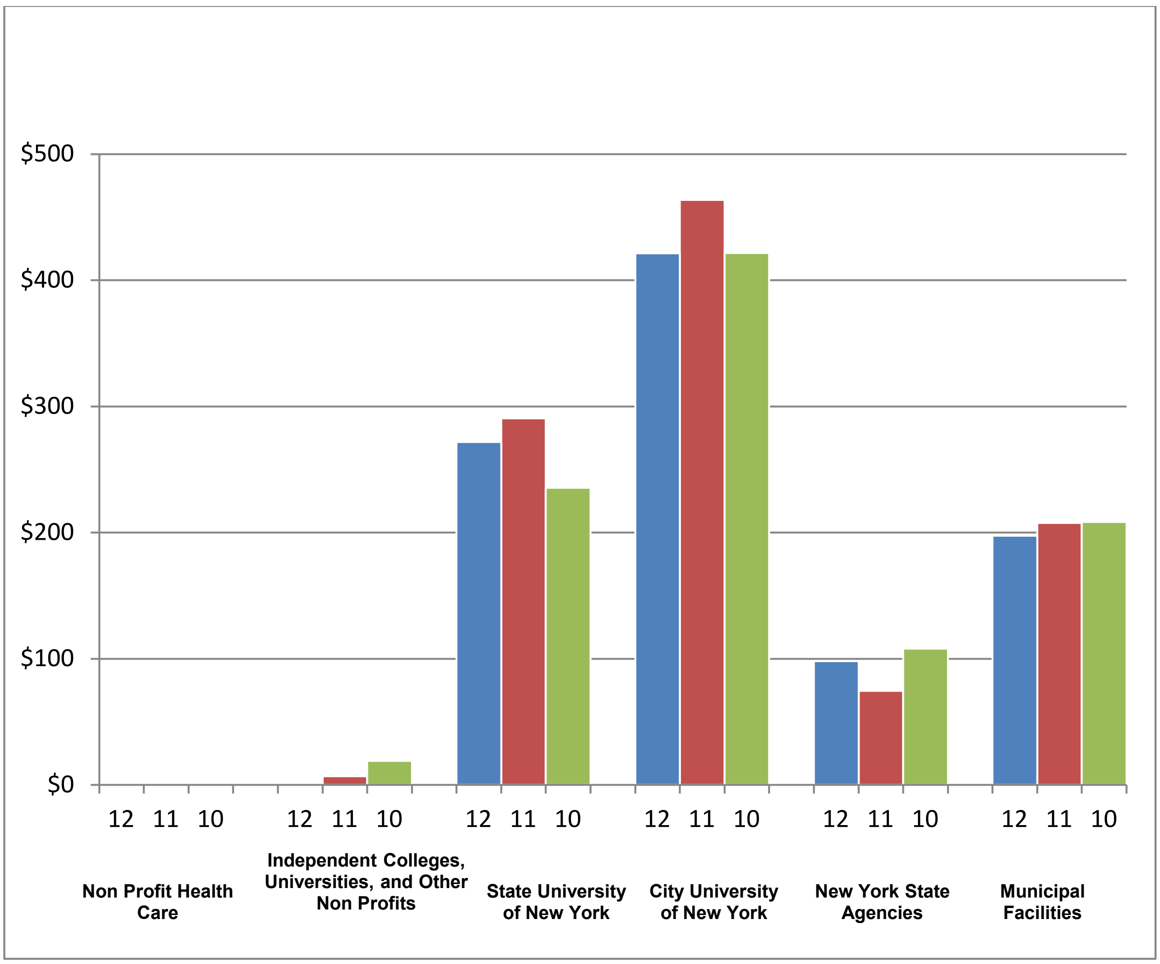
Construction and Loan Disbursements by Program

(in millions)

		2012	2011	2010
Construction disbursements for Authority - managed projects				
Nonprofit healthcare	$	—	—	—
Independent colleges, universities and other nonprofits		1.3	6.9	19.2
Public facilities				
State University of New York		271.9	290.5	235.6
City University of New York		421.3	463.7	421.6
NYS agencies		98.2	74.5	108.0
Municipal facilities		197.5	207.7	208.5
Total construction disbursements for Authority-managed projects		990.2	1,043.3	992.9
Certified construction disbursements				
Nonprofit healthcare		254.1	454.2	456.0
Independent colleges, universities and other nonprofits		822.6	664.1	1,140.1
Public facilities				
State University of New York		911.6	771.5	748.7
City University of New York		91.7	230.4	200.4
NYS agencies		431.5	416.0	624.6
Municipal facilities		9.3	18.5	55.5
Total certified construction disbursements		2,520.8	2,554.7	3,225.3
Other construction and loan disbursements		1,057.9	1,104.4	1,297.4
Total construction, loan and other disbursements, and project funds disbursed	$	4,568.9	4,702.4	5,515.6

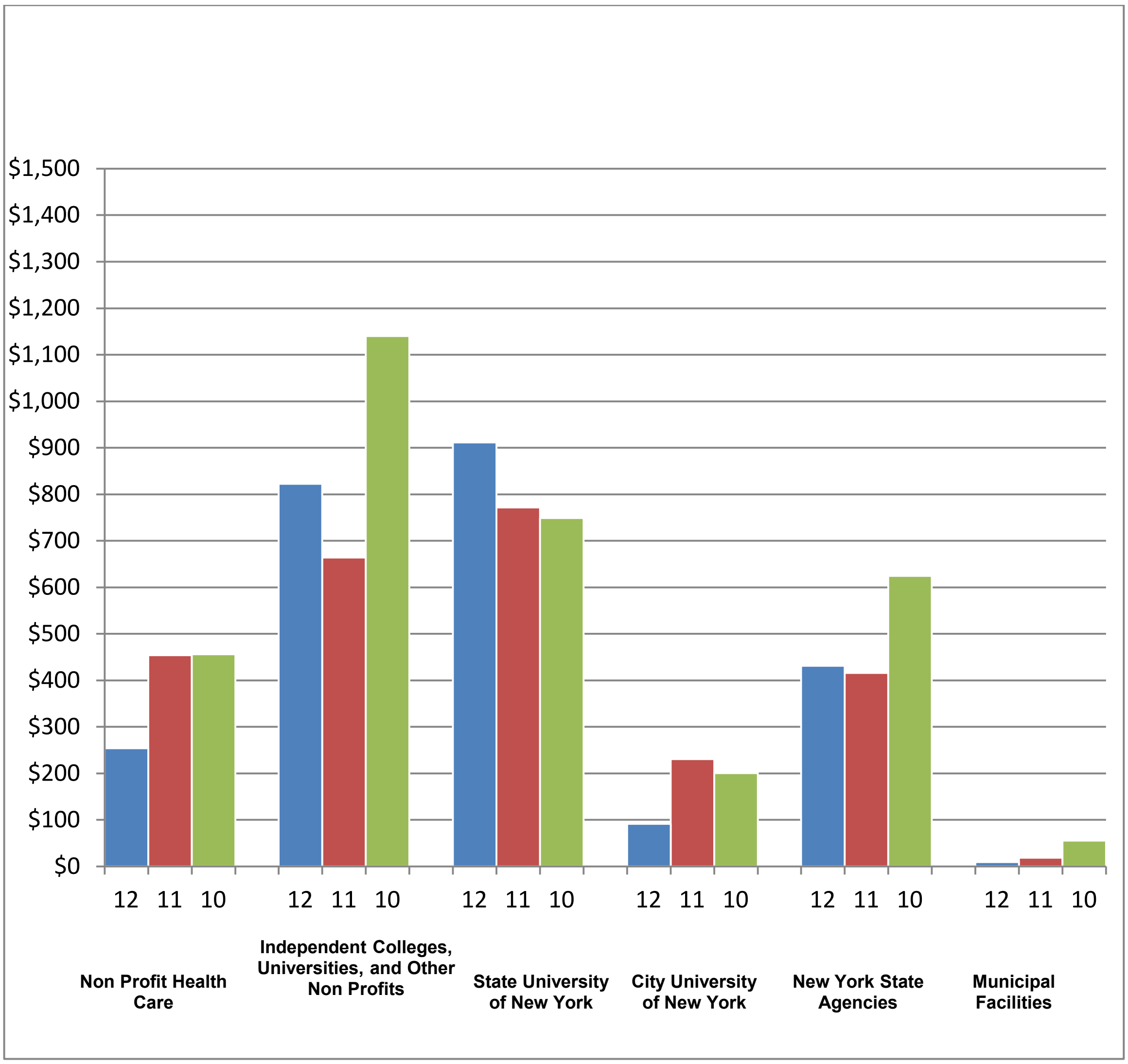
Construction Disbursements for Authority-Managed Projects by Program

(in millions)



Certified Construction Disbursements by Program

(in millions)



Investing Activities

The Authority managed an investment portfolio valued at $5.6 billion and $5.8 billion as of March 31, 2012 and 2011, respectively. The portfolio is comprised of investments held for bond-financed construction projects and grant programs, reserve requirements, debt service obligations, non-bond-financed capital and rehabilitation projects, and Authority operations. Additional information regarding types of securities, maturity ranges, and risk characteristics of the investment portfolio is included in note 3 to the basic financial statements.

Investment Balances by Purpose as of March 31

(in millions)

		2012	2011	2010
Bonded construction and grants	$	3,303.8	3,565.8	2,734.4
Reserve funds		1,241.8	1,312.7	1,434.7
Debt service obligations		722.4	560.0	623.6
Non-bonded projects		195.0	201.5	305.9
Authority operations		173.1	147.4	114.3
Total	$	5,636.1	5,787.4	5,212.9

Financial Analysis of the Authority

Condensed Summary of Net Assets as of March 31 (in millions)

	2012		2011		2010	
Assets:						
Cash, cash equivalents, and investments	$ 5,958	13%	$ 6,240	14%	$ 6,131	14%
Leases and loans receivable	39,855	86	38,663	85	37,159	84
Accrued financing income receivable	265	—	305	—	328	1
Capital assets, net	30	—	12	—	13	—
Other assets	350	1	363	1	271	1
Total assets	46,458	100	45,583	100	43,902	100
Liabilities:						
Bonds and notes outstanding	44,494	97	43,629	96	41,834	96
Accrued interest payable	490	1	494	1	533	1
Other liabilities	1,079	2	1,043	3	1,003	3
Total liabilities	46,063	100	45,166	100	43,370	100%
Net assets:						
Invested in capital assets	12	3	12	3	13	2
Restricted	317	80	337	80	456	86
Unrestricted	66	17	68	17	63	12
Total net assets	$ 395	100%	$ 417	100%	$ 532	100%

Assets

Cash, cash equivalents and investments primarily represent monies held for construction, reserves, or for payment of debt service on outstanding bonds and notes. Such monies are held in trust by a trustee bank for the benefit of bondholders. The Authority records investments at fair value. Increases and decreases primarily result from the correlation of proceeds from new bond issues to the amount of bond proceeds disbursed for construction and other activities. More detailed information regarding Cash, cash equivalents and investments is presented in note 3 to the financial statements.

Leases and loans receivable represents accumulated construction costs for each project, net of principal repayments, client contributions, and investment earnings on construction accounts. When a project is completed, the receivable will equal the bonds or notes outstanding net of any bond proceeds deposited in reserve accounts. Increases and decreases primarily result from the correlation of Construction, loan, and other disbursements to the amount of Principal receipts on leases and loans receivable, project contributions and income on investments in construction accounts. More detailed information regarding Leases and loans receivable is presented in note 4 to the financial statements.

Accrued financing income receivable represents the amount of interest on bonds and notes due from clients since the last client loan payment date through the Authority's fiscal year-end. Increases and decreases can result from accrued interest payable on new bond issues, changes in the balance of capital appreciation bonds, the conversion of variable rate bonds to fixed rate bonds and changes in the interest rate environment.

Capital assets approximate $51 million as of March 31, 2012, primarily related to the Authority's Albany headquarters building and the land and building acquired by NGHP in connection with the North General Hospital bankruptcy. Capital assets approximate $32 million as of March 31, 2011, primarily related to the Authority's Albany headquarters building. Net of accumulated depreciation, capital assets totaled approximately $30 million and $12 million as of March 31, 2012 and 2011, respectively. The hospital building owned by NGHP is not being depreciated since it is not currently in service. The Authority's interest in capital assets financed through the issuance of bonds and notes on behalf of clients is recorded on the Statements of Net Assets as a component of Leases and loans receivable. More detailed information regarding the Authority's Capital assets is presented in note 5 to the financial statements.

Liabilities

Accrued interest payable represents interest due, but not yet paid, to the holders of outstanding bonds and notes from the last interest payment date through the Authority's fiscal year-end. Increases and decreases can result from accrued interest payable on new bond issues offset by a net decrease in the balance of capital appreciation bonds outstanding due to scheduled maturities as well as changes in the interest rate environment.

Other liabilities increased by $36 million (4%) from 2011 to 2012, primarily as a result of an increase in amounts held for institutions, accounts payable and accrued expenses offset by a decrease in amounts due to NYS. Other liabilities increased by $40 million (4%) from 2010 to 2011, primarily as a result of an increase in amounts due to NYS and amounts held for institutions offset by a decrease in accounts payable and accrued expenses.

Net Assets

Unrestricted net assets relate to the Authority's operating activities. The related assets include unrestricted cash and investments, including monies available to assist healthcare clients and program development accounts. Unrestricted net assets decreased by $2 million (3%) from 2011 to 2012. The decrease primarily resulted from a decrease in fees collected from public clients to cover their allocable amount of Authority operating expenses.

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Unrestricted net assets increased approximately $5 million (8%) from 2010 to 2011. The increase primarily resulted from fees from clients that pay fixed ongoing annual administrative fees.

Restricted net assets decreased by $20 million (6%) from 2011 to 2012 and by $119 million (26%) from 2010 to 2011, primarily as a result of transfers to escrow in connection with refundings.

Net assets invested in capital assets primarily relate to the Authority's headquarters building and related furniture and equipment.

Condensed Summary of Revenues, Expenses, and Changes in Net Assets for the Fiscal Year Ended March 31 (in millions)

	2012		2011		2010	
Operating revenues:						
Financing income	$ 1,953	92%	$ 1,845	89%	$ 1,706	86%
Income on investments held for institutions	19	1	25	1	29	1
Fees for services	96	4	99	5	99	5
Other revenues	65	3	106	5	157	8
Total operating revenues	2,133	100%	2,075	100%	1,991	100%
Operating expenses:						
Interest on bonds and notes	1,928	89%	1,885	86%	1,780	88%
Personal service, employee benefits, maintenance and operations	100	5	99	5	94	5
Other expenses	127	6	206	9	139	7
Total operating expenses	2,155	100%	2,190	100%	2,013	100%
Operating loss	(22)		(115)		(22)	
Nonoperating expenses:						
New York State initiatives	—		—		(26)	
Decrease in net assets	(22)		(115)		(48)	
Net assets, beginning of year	417		532		580	
Net assets, end of year	$ 395		$ 417		$ 532	

Revenues, Expenses, and Changes in Net Assets

The majority of the Authority's revenues and expenses relates to activity in the restricted accounts of the individual series of bonds and notes, not operating accounts. The revenues generated in restricted bond and note accounts accumulate until needed. In some years, revenues exceed expenses in restricted bond and note accounts, usually as a result of income on investments and contributions of cash and investments. In other years, expenses exceed revenues in restricted bond and note accounts as accumulated revenues are utilized, usually for payment of debt service, redemption of bonds and notes or transfers to escrow in connection with refundings. Restricted net assets remain in each of the individual bond and note issues and accrue to the benefit of the client institutions. At final maturity, the restricted net assets of an individual bond and note issue will be $0.

The overall decrease in net assets of $22 million from 2011 to 2012 consisted of a decrease in net assets in operating accounts of $2 million, which resulted primarily from a decrease in fees collected from public clients to cover their allocable amount of Authority operating expenses, and a decrease in net assets in restricted bond and note accounts of $20 million, which resulted primarily from transfers to escrow in connection with refundings. The overall decrease in net assets of $115 million from 2010 to 2011 consisted of an increase in net assets in operating accounts of $5 million, which resulted primarily from fees from those clients that pay fixed ongoing annual bond administrative fees and income on investments, a decrease in net assets in restricted bond and note accounts of $119 million, which resulted primarily from the utilization of prior years' accumulated earnings for debt service and transfers to escrow in connection with refundings, and a decrease in capital assets of $1 million, which resulted from depreciation expense.

Financing income represents the interest payments received from clients. Financing income and investment earnings on certain restricted bond and note accounts are used to pay interest on bonds and notes outstanding. Financing income increased by $108 million (6%) from 2011 to 2012. The increase in financing income resulted primarily from interest on new bond issues and a decrease in the amount of accumulated earnings applied as debt service credits, offset by a reduction in interest attributable to variable rate bonds due to lower interest rates as well as lower interest rates in connection with refundings of higher rate bonds. Financing income increased by $139 million (8%) from 2010 to 2011. The increase in financing income resulted primarily from interest on new bond issues, offset by a reduction in interest attributable to variable rate bonds due to lower interest rates as well as lower interest rates in connection with refundings of higher rate bonds.

Income on investments (operating and nonoperating) primarily includes income on restricted bond and note accounts other than construction accounts. Income on investments in construction accounts is not included in the Statements of Revenues, Expenses, and Changes in Net Assets as it is reflected in the Statements of Net Assets as a component of Leases and loans receivable. Total Income on investments decreased by $6 million (24%) from 2011 to 2012 and by $4 million (14%) from 2010 to 2011 primarily as a result of the continuing decline in interest rates from 2010 through 2012.

Fees for services include financing fees and annual administrative fees related to ongoing bond management and construction services. Fees for services decreased by $3 million (3%) from 2011 to 2012 as a result of a decrease in fees collected from public clients to cover their allocable amount of Authority operating expenses, which decreased by approximately $3 million. Fees for services remained stable from 2010 to 2011.

Other revenues primarily represent the receipt in restricted bond and note accounts of income on investments transferred from construction accounts. Changes reflect the relative amounts of investment income in construction accounts available and transferred to other restricted bond and note accounts. Other revenues decreased from 2011 to 2012 and from 2010 to 2011 due to fewer amounts of construction fund earnings transferred for debt service as various construction accounts were closed and as interest rates declined.

Interest on bonds and notes increased by $43 million (2%) from 2011 to 2012 and increased by $105 million (6%) from 2010 to 2011 primarily as a result of interest on new bond issues, offset by a reduction in interest attributable to variable rate bonds due to lower interest rates as well as lower interest rates in connection with refundings of higher rate bonds, and the elimination of interest associated with bonds defeased during the period.

Personal service, employee benefits, and maintenance and operations remained stable from 2011 to 2012 with increases in retirement contributions and health insurance offset by decreases in salaries and postemployment benefits. Personal service, employee benefits, and maintenance and operations increased by $5 million (5%) from 2010 to 2011 primarily due to increases in retirement contributions, health insurance and postemployment benefits.

Other expenses include transfers of accumulated restricted net assets and current year revenues to escrow in connection with refundings, amounts returned to institutions, reductions to leases and loans receivable due to redemption of bonds, arbitrage expense, uncollectible expenses, program expenses and administrative fees paid from restricted accounts. Other expenses decreased by $79 million (38%) from 2011 to 2012 primarily as a result of decreases in transfers to escrow and uncollectible expenses. Other expenses increased by $67 million (48%) from 2010 to 2011 primarily as a result of an increase in transfers to escrow offset by decreases in amounts returned to institutions and reductions to leases and loans receivable due to redemption of bonds.

Interest Rate Exchange Agreements (Swaps)

Article 5-D of the State Finance Law authorizes the State and various public authorities that issue State-supported bonds to enter into swaps up to certain limits and also limits the amount of outstanding variable rate State-supported bonds. Additionally, Section 2926 of the Public Authorities Law authorizes the Authority to enter into swaps up to certain limits in connection with bonds and notes issued on behalf of a municipality for court facilities and combined occupancy structures and bonds and notes issued on behalf of a municipality for health facilities. Pursuant to these authorizations, as a means to lower borrowing costs for the State and New York City (the City) and to cost effectively support their strategies to diversify their debt portfolios with a combination of fixed and variable-rate debt and more closely match their assets and liabilities, at various times, the Authority enters into interest rate swap agreements. The Authority's swaps are undertaken as a part of the State's and City's overall debt management programs. The Authority is only obligated to make swap payments from monies paid to it by the State or City pursuant to lease and financing agreements related to the State and City-supported bonds. More detailed information regarding the Authority's interest rate exchange agreements, including their requirements and risks are presented in notes 9 and 10 to the basic financial statements.

Request for Information

The Authority's corporate headquarters is located at 515 Broadway, Albany, N.Y. 12207-2964. The main telephone number is 518-257-3000. The Authority maintains an internet website which can be accessed from the following address www.dasny.org.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
(A Component Unit of the State of New York)

Statements of Net Assets

March 31, 2012 and 2011

(In thousands)

		2012	2011
Assets:			
Current assets:			
Cash and cash equivalents (note 3)	$	322,113	452,748
Investments (note 3)		1,075,340	904,552
Leases and loans receivable, net (note 4)		4,157,221	4,603,700
Project funds receivable		128,554	179,187
Accrued financing income receivable		264,810	304,712
Accrued interest receivable on investments		7,240	9,370
Other receivables (note 7)		28,074	28,088
Total current assets		5,983,352	6,482,357
Investments (note 3)		4,560,726	4,882,855
Leases and loans receivable, net (note 4)		35,697,748	34,059,759
Project funds receivable		80,084	78,289
Other receivables (note 14)		106,275	67,917
Capital assets, net (note 5)		30,122	12,256
Total assets		46,458,307	45,583,433
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses		388,170	381,462
Bonds and notes outstanding (notes 8 and 9)		4,157,221	4,603,700
Accrued interest payable		490,064	494,491
Unearned financing income		16,159	15,064
Amounts held for institutions (notes 6 and 8)		116,207	138,847
Due to New York State (note 8)		126,240	159,656
Current portion of other long-term liabilities (note 8)		157	2,844
Unearned fees for services (note 7)		43,017	37,195
Total current liabilities		5,337,235	5,833,259
Bonds and notes outstanding (notes 8 and 9)		40,336,715	39,025,269
Amounts held for institutions (notes 6 and 8)		201,913	148,442
Due to New York State (note 8)		11,398	11,287
Other long-term liabilities (note 8)		176,205	148,137
Total liabilities		46,063,466	45,166,394
Net assets:			
Invested in capital assets		12,322	12,256
Restricted		316,431	337,215
Unrestricted (note 15)		66,088	67,568
Total net assets	$	394,841	417,039

See accompanying notes to basic financial statements.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
(A Component Unit of the State of New York)

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended March 31, 2012 and 2011

(In thousands)

		2012	2011
Operating revenues:			
Financing income	$	1,953,411	1,845,100
Income on investments held for institutions		18,625	25,064
Fees for services		96,356	99,060
Contributions of cash and investments		29,077	51,863
Other		35,973	54,178
Total operating revenues		2,133,442	2,075,265
Operating expenses:			
Interest on bonds and notes		1,928,405	1,885,459
Amounts returned to institutions		12,090	18,695
Reduction of leases and loans receivable due to redemption of bonds		24,926	31,300
Personal service and employee benefits		81,956	81,548
Maintenance and operations		18,076	17,995
New York State assessments		7,545	6,916
Transfers to escrow		63,384	115,199
Other		19,315	33,658
Total operating expenses		2,155,697	2,190,770
Operating loss		(22,255)	(115,505)
Nonoperating revenues:			
Income on investments held for the Authority		57	432
Decrease in net assets		(22,198)	(115,073)
Net assets, beginning of year		417,039	532,112
Net assets, end of year	$	394,841	417,039

See accompanying notes to basic financial statements.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
(A Component Unit of the State of New York)

Statements of Cash Flows

Years ended March 31, 2012 and 2011

(In thousands)

		2012	2011
Cash flows from operating activities:			
Fees for services	$	106,116	98,657
Amounts received from institutions		28,250	42,502
Project funds received		456,039	522,631
Permit and patient income receipts		3,571,573	4,064,702
Special purpose healthcare loan receipts		25,351	30,451
Other receipts		11,512	15,647
Personal service and employee benefits		(69,764)	(69,197)
Maintenance and operations		(20,393)	(17,015)
New York State assessments		(7,545)	(6,916)
Permit and patient income transferred to New York State		(3,600,549)	(4,043,334)
Project funds disbursed		(444,125)	(537,608)
Amounts returned to institutions		(12,080)	(24,660)
Special purpose healthcare loan disbursements		(26,825)	(22,612)
Other disbursements		(23,318)	(28,097)
Net cash provided by (used in) operating activities		(5,758)	25,151
Cash flows from noncapital financing activities:			
Proceeds from the issuance of bonds and notes		5,527,189	5,620,366
Amounts transferred to escrow to defease debt		(1,731,257)	(1,134,024)
Principal repayments of bonds and notes		(2,081,323)	(1,873,279)
Interest paid on bonds and notes		(2,050,751)	(2,031,666)
Net cash provided by (used in) noncapital financing activities		(336,142)	581,397
Cash flows from capital financing activities:			
Acquisition of property and equipment		(807)	—
Proceeds from sale of property and equipment		5,405	—
Net cash provided by capital financing activities		4,598	—
Cash flows from investing activities:			
Purchases of investments		(14,906,631)	(27,430,106)
Proceeds from sales and maturities of investments		15,059,704	26,845,290
Income on investments		28,858	54,750
Construction, loan, and other disbursements		(4,124,776)	(4,164,799)
Principal receipts on leases and loans receivable		2,155,823	1,761,943
Financing income		1,993,689	1,861,175
Net cash provided by (used in) investing activities		206,667	(1,071,747)
Net decrease in cash and cash equivalents		(130,635)	(465,199)
Cash and cash equivalents, beginning of year		452,748	917,947
Cash and cash equivalents, end of year	$	322,113	452,748

(Continued)

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
(A Component Unit of the State of New York)

Statements of Cash Flows

Years ended March 31, 2012 and 2011

(In thousands)

		2012	2011
Operating loss	$	(22,255)	(115,505)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation expense		763	742
Interest on bonds and notes		1,928,405	1,885,459
Income on investments held for institutions		(18,625)	(25,064)
Financing income		(1,953,411)	(1,845,100)
Reduction of leases and loans receivable due to redemption of bonds		24,926	31,300
Investments received from institutions		(2,025)	(11,062)
Amounts transferred to escrow to defease debt		63,384	115,199
Assets received from escrow		(208)	(2,004)
Other expenses		(472)	10
Change in assets and liabilities:			
Increase in leases and loans receivable		(19,155)	(21,653)
Decrease (increase) in project funds receivable		48,838	(108,413)
(Increase) decrease in other receivables		(31,884)	15,370
Decrease in accounts payable and accrued expenses and other long-term liabilities, net of construction funds		(1,682)	(13,184)
Increase (decrease) in due to New York State		(33,305)	59,499
Increase in amounts held for institutions		5,126	55,982
Increase in unearned fees for services		5,822	3,575
Total adjustments		16,497	140,656
Net cash provided by (used in) operating activities	$	(5,758)	25,151

See accompanying notes to basic financial statements.

(1) The Authority

The Dormitory Authority of the State of New York (the Authority) is a public benefit corporation established in 1944 and is governed by Title 4 and 4B, Article 8 of the Public Authorities Law of the State of New York. The Authority is an independent corporate agency with governmental functions delegated to it by the State of New York (the State). It is not a municipal corporation. Employees of the Authority are not employees of the State or of a civil service division thereof.

The Authority was established by the State as a public benefit corporation for the purpose of financing, designing, constructing, purchasing, reconstructing, and/or rehabilitating buildings (projects), including the acquisition of equipment, for a variety of public and private institutions. The private institutions for which the Authority is authorized to provide these services consist of colleges and universities, hospitals, nursing homes and various other entities that are specifically enumerated in the Authority’s enabling legislation. The public institutions for which the Authority is authorized to provide these services include various agencies of the State, the City University of the City of New York (the City), the State University of the State of New York, local school districts, cities and counties with respect to certain court and municipal health facilities and for various other purposes as authorized by law. The Authority has also established lease financing programs that are used to finance the acquisition of equipment for various clients. The Authority is also authorized by statute to finance directly or indirectly certain student loans and on behalf of the State, to fund and administer grants to various public and private entities. To accomplish its purpose, the Authority has the power to borrow money and to issue negotiable bonds or notes, in conformity with the applicable provisions of the Uniform Commercial Code, and to provide for the rights of the holders of such debt instruments. Obligations of the Authority are not a debt of the State. All bond and note issues of the Authority are subject to the approval of the Public Authorities Control Board of the State.

On December 10, 2010, the Authority was authorized to establish a subsidiary for the purpose of limiting the potential liability of the Authority in connection with its exercise of remedies against North General Hospital as a result of the Hospital’s default under its loan agreements and mortgages with the Authority. As a result, on March 17, 2011, such subsidiary, NGHP Holding Corporation (NGHP) was established in the form of a public benefit corporation. North General Hospital filed a petition in bankruptcy and, NGHP acquired the assets and liabilities of North General Hospital on June 30, 2011 in accordance with the plan of liquidation approved by the Bankruptcy Court. The related transactions are included in these financial statements.

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Authority is included in the basic financial statements of the State as a component unit.

(2) Summary of Significant Accounting Policies

(a) Basis of Reporting

The basic financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles for governments as prescribed by the GASB, which is the primary standard-setting body for establishing governmental accounting and financial reporting principles. The Authority has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Under GASB Statement No. 20, the Authority has elected the option not to apply all FASB Statements and

(Continued)

Interpretations issued after November 30, 1989. The Authority applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Statements and Interpretations of the Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB's) of the Committee on Accounting Procedure. The Authority has elected the option under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations* to report conduit debt in its basic financial statements, other than certain tax-exempt equipment leases (see note 9 to the financial statements). The more significant of the Authority's accounting policies are described below.

(b) Basis of Accounting

The Authority follows the economic resources measurement focus and the accrual basis of accounting for revenues and expenses whereby revenues are recognized when earned and expenses are recognized when obligations are incurred.

The basic financial statements are a compilation of approximately two thousand separate self-balancing restricted debt accounts, each related to an individual series of outstanding bonds and notes, and over one hundred individual program operating accounts.

The primary operating revenue of the Authority is financing income, representing interest on indebtedness, received from institutions. The Authority also recognizes as operating revenue the income on investments held for institutions, except interest earned on construction account investments. Income on investments in construction accounts is recorded as a reduction to leases and loans receivable since the earnings are generally used for project costs. Fees charged to institutions for services and certain remaining bond proceeds transferred from refunded issues are also recognized as operating revenue. Operating expenses for the Authority include the interest expense on bonds and notes, reduction of leases and loans receivable, which represents bonds redeemed with earnings, administrative expenses and amounts returned to institutions.

The majority of the Authority's revenues and expenses relates to activity in the restricted debt accounts of the individual series of bonds and notes, not operating accounts. The revenues generated in restricted debt accounts accumulate until needed. In some years, revenues exceed expenses in restricted debt accounts, usually as a result of income on investments and contributions of cash and investments. In other years, expenses exceed revenues in restricted debt accounts as accumulated revenues are utilized, usually for payment of debt service, redemption of bonds and notes, transfers to escrow in connection with refundings or amounts returned to institutions. Restricted net assets remain in each of the individual bond or note issues and accrue to the benefit of the client institutions. At final maturity, the restricted net assets of an individual bond or note issue will be $0.

Any revenues and expenses that do not support the primary business functions of the Authority are reported as nonoperating revenues and expenses.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit and money market accounts.

(d) Investments

Investments are recorded at fair value, other than investment agreements, repurchase agreements, and certificates of deposit, which are recorded at cost. The Authority uses an independent pricing source to determine the fair value of investments at quoted market prices. Changes in fair value are included in the captions "Income on investments held for institutions" and nonoperating "Income on investments held for the Authority" in the Statements of Revenues, Expenses, and Changes in Net Assets, except for changes in fair value related to investments in the construction accounts, as described in note 2(f).

(e) Leases and Loans Receivable

Projects are financed primarily under either a lease (where the lease payments are pledged to the trustee for the benefit of the bondholders), a loan (where the loan payments are pledged to the trustee for the benefit of the bondholders), or other agreements, including service contracts and financing agreements with the State and municipalities, which provide for the payment of debt service dependent upon annual appropriation, or for which specific revenues have been pledged in support of a collateralized borrowing. Additionally, in certain instances, revenues of the institutions have been pledged under the terms of the respective bond resolutions and certain restricted amounts are required to be maintained with the trustee in accordance with such resolutions.

Leases and loans receivable represents accumulated construction costs for projects financed through bond and note issues, net of principal repayments received from institutions, institution contributions, and income on investments on construction accounts. Income on investments on construction accounts is recorded as a reduction to leases and loans receivable since the earnings are generally used for project costs. The disbursement of project costs financed with bond proceeds is recorded as an increase to Leases and loans receivable. The principal portion of debt service received from institutions is recorded as a reduction to Leases and loans receivable.

Interest paid from bond proceeds during the construction period, capitalized interest, is recorded as an increase to the receivables. Capitalized interest was approximately $115 million and $98 million for the fiscal years ended March 31, 2012 and 2011, respectively. Income earned on construction fund investments during the construction period is recorded as a reduction of the receivables. Construction fund investment income was approximately $6 million and $9 million for the fiscal years ended March 31, 2012 and 2011, respectively. Discount or premium on debt issued and associated bond issuance costs are capitalized and amortized over the life of the bonds as principal repayments are received from institutions.

Leases and loans receivable, together with amounts held in construction accounts and amounts deposited in certain other restricted accounts, are generally equal to the face value of the associated bonds or notes outstanding. The effective interest rate on the receivables is generally imputed based on the effective rate on the bond or note, and the related income is included in the caption "Financing income" in the Statements of Revenues, Expenses, and Changes in Net Assets.

The Authority maintains various asset management monitoring systems to evaluate the ability of institutions to meet their debt service payments and establishes loan loss reserves as necessary. All bond and note issues are special obligations of the Authority and many include credit enhancements to ensure payment of debt service to the bondholders (see note 9).

(f) Project Funds Receivable

Project funds receivable includes amounts due from institutions for projects funded from other than available bond or note proceeds. The amounts reported in this asset category also include construction costs for certain mental health projects and grants paid by the State in the first instance which will subsequently be funded from bond or note proceeds or other State appropriations and reimbursed to the State. The related liability for these costs is reported in the Statement of Net Assets caption "Due to New York State." Additionally, the cost of retainage on construction contracts that will be funded in the future by institution contributions or additional bond or note proceeds is included in Project funds receivable.

(g) Other Receivables

Other receivables consist of amounts due from institutions for various healthcare loans, Authority administrative fees, OPEB obligations and accrued leave credits allocable to public clients, and bond issuance costs and project costs advanced from Authority operating funds. Prepaid expenses are also reported in other receivables. At March 31, 2012 and 2011, the Authority has recorded $123 million and $202 million, respectively, as an allowance for uncollectible accounts primarily related to advances made to assist healthcare institutions which, for the most part, does not impact the Statements of Revenues, Expenses, and Changes in Net Assets.

(h) Capital Assets

Capital assets include capital assets of the Authority as well as capital assets of its subsidiary corporation, NGHP (see note 5). Capital assets of the Authority, include land, buildings and equipment. Land is reported at its original acquisition cost. Buildings and equipment are stated at cost, less accumulated depreciation, and are being depreciated over their estimated useful lives ranging from 5 to 25 years using the straight-line method. It is the Authority's policy to capitalize buildings and equipment which have a cost in excess of $50,000 at the date of acquisition. Authority buildings are depreciated over 25 years, building improvements and renovations are depreciated over the remaining life of the building or lease, furniture and equipment are depreciated over 7 to 10 years, financial management system equipment, software and related costs are depreciated over 10 years, and other computer equipment and software are depreciated over 5 years.

Capital assets of NGHP, which include land and buildings, are reported at their appraised value. Certain capital assets were sold concurrently with the transfer of title to NGHP, the sale proceeds of which were used to pay claims of North General Hospital, and to pay a portion of the Authority's costs incurred in connection with the bankruptcy proceeding and the acquisition of North General Hospital's properties. The main hospital building owned by NGHP is not being depreciated since it is not currently in service. The proceeds from the lease or sale of NGHP assets will be used to pay any remaining claims of North General Hospital, to pay additional costs of the Authority or NGHP incurred in connection with the properties, or to redeem a portion of the North General Hospital Series 2003 Bonds. The obligation to make such payments is recorded in "Amounts Held for Institutions" (see note 6).

(i) Due to New York State

The State pays construction costs for certain mental health projects managed by other State agencies, and advances funds for certain grant programs, from its short-term investment pool (STIP), which are subsequently reimbursed by the Authority from bond or note proceeds, or other funds appropriated to the Authority. The unreimbursed balance of such State advances for construction costs and grant programs is included in the caption “Due to New York State.” Patient income receipts related to the State mental health program and rent receipts from tenants leasing State-owned mental health facilities which have not yet been remitted to the State are also included in this liability. In addition, proceeds from the sale of State-owned mental health properties are also reported in “Due to New York State.”

(j) Compensated Absences

Employees accrue vacation at varying rates ranging from 13 days per year to a maximum of 25 days per year. Overtime-eligible employees accrue compensatory leave when they work between 37.5 hours and 40 hours in a workweek. A maximum of 225 hours of accrued vacation leave and a maximum of 240 hours of accrued compensatory leave is payable upon separation. At March 31, 2012 and 2011 accrued expenses of $4.4 million and $4.3 million, respectively, were recorded for the estimated obligation for vacation and compensatory leave and included in the caption “Other Long-Term Liabilities” in the Statements of Net Assets. Related receivables of $3.8 million, representing the portion of the liability allocable to public clients, are included in the caption “Other Receivables” in the Statements of Net Assets at March 31, 2012 and 2011. In addition, the Authority is holding the remaining portion of the liability in a reserve established by the Board.

(k) Derivative Instruments

As a means to lower borrowing costs for the State and the City and to cost effectively support their strategies to diversify their debt portfolios with a combination of fixed and variable rate debt, at various times, the Authority enters into swap agreements. The related lease and financing agreements between the Authority and the State or the City include provisions that obligate the State or the City, subject to annual appropriation, to pay to the Authority all amounts due in connection with the swap agreements. Such swap repayment terms are considered derivative instruments with terms reciprocal to those of the swap agreements. When analyzed concurrently, because of the reciprocal terms, the swap agreements and the swap repayment terms in the lease and financing agreements with the State and the City are not considered associated with hedgeable items. Consequently, the swap agreements and the swap repayment terms in the lease and financing agreements are regarded as investment derivatives. Given that the fair value of the swap repayment terms offsets the fair value of the swap agreements and both are reported as investments, there is no net impact of financial statements. See note 10 to the financial statements for further detail concerning the Authority’s derivative instruments.

(l) Restricted Net Assets

The amounts reported in this net asset category are restricted in accordance with the bond and note resolutions for the payment of outstanding bonds and notes and may be used for the payment of project costs, arbitrage payments to the Internal Revenue Service and costs of issuance. Restricted net assets are held for the benefit of the institutions and bondholders. Monies remaining upon retirement of the bonds and notes are returned to the institutions.

(m) Revenue Recognition

The Authority recognizes revenue when earned. Financing income is recognized as the related interest on bonds and notes is incurred. Fees for services are recognized, and unearned fees for services are amortized, as the related personal service expense of the Authority is incurred.

(n) Cash Flows

The Statements of Cash Flows are presented using the direct method of reporting.

(o) Income Taxes

The Authority is a component unit of the State of New York and is generally exempt from Federal, State, and local income taxes.

(p) Use of Estimates

The preparation of the basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting periods.

Significant items subject to such estimates and assumptions include the fair value of investments, the carrying value of capital assets, accrued expenses and other long-term liabilities. Actual results could differ from those estimates.

(3) Cash, Cash Equivalents and Investments

The Authority has a written investment policy that applies to all its investments. This policy allows for the following investments:

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America;
- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by any agency or instrumentality of the United States of America that are rated in at least the second highest rating category by at least two nationally recognized statistical rating organizations;
- Certificates or other instruments which evidence the ownership of or the right to receive the payment of the principal and guaranteed interest on obligations, wholly comprised of such obligations listed above;
- Obligations of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, (i)(A)the interest on which is excludable from gross income under Section 103 of the Internal Revenue Code, which is not a

"specified private activity bond" within the meaning of Section 57(a)(5) of the Internal Revenue Code (Exempt Obligations), or (B) which qualifies as a "Build America Bond" within the meaning of Section 54AA of the Internal Revenue Code, and (ii) are rated in at least the second highest rating category by at least two nationally recognized statistical rating organizations;

- Shares or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of $1.00 per share, that is rated in the highest short-term rating category by at least one nationally recognized statistical rating organization, and at the time such investment is made, such fund had a minimum asset value of $500 million;
- Commercial paper issued by a domestic corporation rated in the highest short-term rating category by at least two nationally recognized statistical rating organizations and having maturities of not longer than 270 days from the date they are purchased;
- Bankers' acceptances issued by a bank rated in the highest short-term rating category by at least two nationally recognized statistical rating organizations and having maturities of not longer than 365 days from the date they are purchased;
- Collateralized Investment Agreements;
- Collateralized or insured Certificates of Deposit.

In addition, the Board and Treasurer of the Authority may also specifically authorize, as deemed appropriate, other investments that are consistent with the Authority's investment objectives, and in the case of investments held in the restricted debt accounts of the individual series of bonds and notes, allowed under the provisions of the related bond or note resolution.

One of the primary objectives of the Authority's investment policy is to provide sufficient liquidity to meet the purposes for which the funds are being held. The majority of the Authority's investment portfolio consists of short-term investment securities to achieve its liquidity objective. Consequently, the Authority's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates since the majority of investments are short-term in nature. Most investments are held to pay for construction expenditures with maturities based upon expectations of when they will be used, or held on behalf of the various institutions to fund specific reserves or payment of debt service, or held for general operating purposes which generally do not exceed maturities of more than one year. Investment securities maturing beyond five years generally relate to restricted reserves that are typically invested with maturity dates that coincide with those of the underlying bonds and notes and are held under guaranteed investment contracts and/or floor-ceiling agreements. The amount of investments by type and maturity, at March 31, 2012 and 2011 are presented in the following tables. Investment maturity classifications in the tables are based on the maturity of the underlying investments, which differs from their classification on the Statement of Net Assets. Investments reported as current on the Statement of Net Assets generally have maturities of one year or less, unless they are restricted by the underlying bond and note resolutions and are expected to be reinvested upon maturity, or the proceeds at maturity are generally used to support construction activities, in which case they are reported as investments, other than current.

(Continued)

Investments reported as current on the Statements of Net Assets at March 31, 2012 and 2011 include $722 million and $559 million, respectively, for debt service payments to be made in the fiscal years ended March 31, 2013 and 2012, respectively, which are restricted by the underlying bond and note resolutions. Also included in investments reported as current at March 31, 2012 and 2011 are investments held for Authority operations, non-bond related capital projects and rehabilitation and renovation of projects totaling $353 million and $345 million, respectively.

	March 31, 2012 (in thousands)				
			Maturities (in Years)		
Investment type	**Amount**	**% of total**	**Less than 1**	**1-5**	**More than 5**
Recorded at fair value:					
Obligations of the United States Government:					
U.S. Treasury notes/bonds	$ 708,500	12.6%	$ 604,697	97,774	6,029
U.S. Treasury bills	1,852,776	32.9	1,852,776	—	—
U.S. Treasury strips	785,130	13.9	767,201	17,929	—
	3,346,406	59.4	3,224,674	115,703	6,029
Federal agencies:					
Federal National Mortgage Association	329,105	5.8	318,754	10,351	—
Federal Home Loan Bank	607,217	10.8	596,485	10,732	—
Federal Home Loan Mortgage Corp.	1,039,624	18.5	1,021,386	18,238	—
Federal Farm Credit Bank	15,212	0.3	3,699	11,513	—
	1,991,158	35.4	1,940,324	50,834	—
Recorded at cost:					
Investment agreements	260,213	4.6	—	31,137	229,076
Time Deposit Agreements	30,284	0.5	7,476	22,808	—
Certificates of deposit	8,005	0.1	8,005	—	—
Total	$ 5,636,066	100.0%	$ 5,180,479	220,482	235,105

	March 31, 2011 (in thousands)				
			Maturities (in Years)		
Investment type	**Amount**	**% of total**	**Less than 1**	**1-5**	**More than 5**
Recorded at fair value:					
Obligations of the United States Government:					
U.S. Treasury notes/bonds	$ 1,013,979	17.5%	$ 685,142	318,191	10,646
U.S. Treasury bills	3,130,102	54.1	3,130,102	—	—
U.S. Treasury strips	537,828	9.3	494,833	42,528	467
	4,681,909	80.9	4,310,077	360,719	11,113
Federal agencies:					
Federal National Mortgage Association	3,859	0.1	—	3,859	—
Federal Home Loan Bank	805,078	13.9	805,078	—	—
Federal Home Loan Mortgage Corp.	1,023	—	—	1,023	—
Federal Farm Credit Bank	3,597	0.1	—	3,597	—
	813,557	14.1	805,078	8,479	—
Municipal bonds	1,048	—	1,022	26	—
Recorded at cost:					
Investment agreements	283,497	4.9	—	17,506	265,991
Certificates of deposit	7,396	0.1	7,396	—	—
Total	$ 5,787,407	100.0%	$ 5,123,573	386,730	277,104

Investment credit risk is the risk that an issuer or other counterparty will not fulfill its obligations.

Federal Agency Securities are issued by Government-Sponsored Enterprises (GSEs), which carry the implicit guarantee of the United States federal government. At March 31, 2012 and 2011, the Authority held approximately $2 billion and $814 million, respectively, in agency securities issued by several GSEs, all of which are rated in the highest rating category by at least two of the nationally recognized statistical rating organizations.

Under investment agreements, the Authority has invested monies with financial institutions at a fixed contract rate of interest. Because the security is essentially a written contract there is no rating available for such an instrument; however, at the time the agreements are entered into, the underlying providers are generally rated in at least the second highest rating category by at least one of the nationally recognized statistical rating organizations, in accordance with established investment policy and guidelines. All agreements are collateralized by investment securities held by a third-party custodian either in the Authority’s name or the name of the bond trustee, at values ranging from 103% to 105% on required evaluation dates and no less than 100% at any given time.

Under certain circumstances, if the credit ratings of the investment agreement provider falls below a certain level, the provisions of the specific agreement requires additional collateral to be posted, a substitute provider to be obtained, or gives the Authority the right to terminate the agreement. As of

March 31, 2012, there were 27 investment agreements totaling $191 million invested with four providers with credit ratings below the level allowing one or more such actions. As of March 31, 2011, there were 30 investment agreements totaling $203 million invested with four providers with credit ratings below the level allowing one or more such actions. The Authority has requested the providers to post additional collateral securities necessary to satisfy the guidelines published by nationally recognized credit rating agencies for investment grade collateralized transactions in accordance with the terms of the related investment agreements or as otherwise required pursuant to the particular agreement. As of March 31, 2012 and 2011, one provider with one investment agreement in the amount of $12 million, for both periods, posted additional collateral securities in accordance with the terms of that particular investment agreement. The Authority has not terminated the remaining agreements, but has reserved all of its rights and remedies under the agreements, in part because of an increase in exposure to reinvestment risk since interest rates equivalent to the interest rates paid on deposits held under the agreements cannot be obtained in the current market.

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Authority's deposits may not be returned. The Authority's deposit policy for custodial credit risk includes minimum equity and rating requirements of, and diversification among, trustee and custodian banks. Certain deposits held in Authority bank accounts are collateralized with securities held by custodian banks and certain are insured by federal depository insurance. As of March 31, 2012 and 2011, the Authority had bank deposits of $170 million and $138 million, respectively, none of which were uninsured and uncollateralized for both periods.

(4) Leases and Loans Receivable

Leases and loans receivable consist primarily of amounts due in accordance with various financing agreements relating to the construction of projects.

Leases and loans receivable at March 31, 2012 consisted of the following (in thousands):

Minimum payments to be received during the fiscal years ending March 31:		
2013	$	4,016,012
2014		4,101,461
2015		3,981,879
2016		3,836,485
2017		3,647,118
Thereafter		51,060,767
Total minimum payments receivable		70,643,722
Less unearned financing income, unexpended bond proceeds, and other credits		(30,788,753)
Total leases and loans receivable, net		39,854,969
Less current leases and loans receivable, net		(4,157,221)
Long-term leases and loans receivable, net	$	35,697,748

Leases and loans receivable financed by bonds and notes are collectible through semi-annual or monthly payments. The collection of leases and loans receivable from institutions is dependent on the ability of each institution to generate sufficient resources to service its bonds and notes. For hospitals and nursing homes, this is predicated in part on their ability to obtain Medicare, Medicaid, or other third-party reimbursement rates sufficient to offset operating costs. For higher education institutions, this is predicated in part on their ability to maintain enrollment and tuition at levels adequate to offset operating costs. For certain public institutions, payment is dependent upon annual appropriation. In certain situations, various credit structures are in place to reduce the risk of nonpayment to bondholders should an institution be unable to pay its debt service (see note 9).

(5) Capital Assets

Capital assets at March 31, 2012 and 2011 consisted of the following (in thousands):

	2012		2011	
Capital assets, not being depreciated:				
Land - Authority		$ 1,083		1,083
Land - NGHP		9,200		—
Building - NGHP		8,600		—
Capital assets, being depreciated:				
Buildings - Authority	$ 23,388		23,388	
Equipment - Authority	8,746		7,917	
Total capital assets being depreciated	32,134		31,305	
Less accumulated depreciation	(20,895)		(20,132)	
Net value of capital assets, being depreciated		11,239		11,173
Net value of all capital assets		$ 30,122		12,256

During fiscal years ended March 31, 2012 and 2011, the Authority recorded depreciation expense of $763 thousand and $742 thousand, respectively, which is recorded in “Maintenance and operations” expense in the Statements of Revenues, Expenses, and Changes in Net Assets.

(6) Amounts Held for Institutions

Certain public institutions provide monies directly to the Authority to be used for the construction or renovation of capital projects. Monies are also released from trustee accounts to the Authority for rehabilitation and renovation of projects. These monies and related earnings are included in the caption “Amounts held for institutions” in the Statements of Net Assets and are restricted for the purpose of making future improvements to projects. Also included in “Amounts held for institutions” are monies received from the State for purposes of helping hospitals in need and improving the healthcare delivery system. In addition, the obligation of NGHP to pay North General Hospital claims, to pay costs incurred in connection with properties owned by NGHP, or to redeem a portion of the North General Hospital Series 2003 Bonds are included in "Amounts held for institutions."

(7) Unearned Fees for Services

As provided for in the various financing documents on all programs other than nonprofit health care institutions, independent colleges, universities and other nonprofit institutions, and certain New York State agencies, excess fees collected over expenses relating to the Authority are obligations of the Authority to the institutions. Such amounts are included in the Statements of Net Assets in the caption "Unearned fees for services."

Conversely, any excess of expenses over fees collected are claims of the Authority against the institutions. Such amounts are included in the Statements of Net Assets in the caption "Other receivables."

(8) Long-Term Liabilities

The Authority's long-term liabilities as of March 31, 2012 and 2011, including the current portion, are comprised of the following (in thousands):

		2012				
		Beginning balance	Additions	Deletions	Ending balance	Due within one year
Bonds and notes payable	$	43,628,969	5,073,284	(4,208,317)	44,493,936	4,157,221
Other long-term liabilities:						
Accrued retainage	$	87,824	41,797	(40,443)	89,178	—
Accrued arbitrage		3,333	222	(2,918)	637	—
Compensated absences		4,349	70	—	4,419	—
OPEB liability		42,640	15,498	(3,107)	55,031	—
Other		12,835	15,897	(1,635)	27,097	157
Total other long-term liabilities	$	150,981	73,484	(48,103)	176,362	157
Due to New York State	$	170,943	3,649,223	(3,682,528)	137,638	126,240
Amounts held for institutions	$	287,289	549,038	(518,207)	318,120	116,207

		2011				
		Beginning balance	**Additions**	**Deletions**	**Ending balance**	**Due within one year**
Bonds and notes payable	$	41,833,612	5,404,520	(3,609,163)	43,628,969	4,603,700
Other long-term liabilities:						
Accrued retainage	$	73,493	42,731	(28,400)	87,824	—
Accrued arbitrage		7,234	558	(4,459)	3,333	2,844
Compensated absences		4,577	—	(228)	4,349	—
OPEB liability		29,625	15,545	(2,530)	42,640	—
Other		13,324	1,236	(1,725)	12,835	—
Total other long-term liabilities	$	128,253	60,070	(37,342)	150,981	2,844
Due to New York State	$	111,444	4,185,995	(4,126,496)	170,943	159,656
Amounts held for institutions	$	231,307	717,962	(661,980)	287,289	138,847

(9) Bonds and Notes Outstanding

(a) Description of Bonds and Notes

Bonds and notes are special obligations of the Authority payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued. Such payments are pledged or assigned to the trustees for the holders of the respective special obligations. The Authority has no obligation to pay its special obligations other than from such payments. In certain instances, the Authority has a lien on certain land and buildings and revenues to secure the payment of principal and interest on the outstanding bonds and notes. In addition, certain bond and note issues include credit enhancements. The following summarizes bonds and notes outstanding at March 31, 2012 and 2011 by primary security feature (in thousands):

		Amounts of debt outstanding	
		2012	**2011**
Backed by letters of credit	$	2,236,785	1,485,645
Insured by municipal bond insurance		5,950,300	6,651,924
Backed by mortgages insured by the State of New York Mortgage Agency		191,355	207,190
Backed by mortgages insured by agencies of the federal government		2,677,060	3,111,845
Payable from State and local government appropriations		21,676,646	21,388,909
Backed by State service contracts and moral obligations		1,236,610	1,375,986
Backed by pledged assets and revenues or payments		10,525,180	9,407,470
Total	$	44,493,936	43,628,969

Fixed rate and variable rate bonds and notes are due in various installments through the fiscal year ending March 31, 2051 and bear interest at variable rates currently ranging from 0.097% per annum to 7.0% per annum, and fixed interest rates currently ranging from 0.5% per annum to 9.375% per annum.

As of March 31, 2012, the Authority had a total of $3.0 billion outstanding variable rate demand bonds, of which $2.0 billion was secured by direct pay bank letters of credit, $566 million was secured by appropriations or by pledged assets and revenues or by payments of the respective clients and with liquidity provided by standby purchase agreements, $165 million was secured by agencies of the federal government, and $221 million was secured by pledged assets and revenues or by payments of the respective clients acting as their own liquidity provider. As of March 31, 2011, the Authority had a total of $3.0 billion outstanding variable rate demand bonds, of which $2.1 billion was secured by direct pay bank letters of credit, $470 million was secured by appropriations or by pledged assets and revenues or by payments of the respective clients and with liquidity provided by standby purchase agreements, $167 million was secured by agencies of the federal government, and $312 million was secured by pledged assets and revenues or by payments of the respective clients acting as their own liquidity provider.

The variable rate demand bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest upon notice and delivery (tender) of the bonds to the remarketing agent being provided within a period of time as specified under the respective bond documents. The remarketing agent is required to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. For those bonds secured by a direct pay letter of credit, the trustee is required to draw an amount sufficient to pay the purchase price of bonds delivered to it and to reimburse the letter of credit provider from monies available from remarketing and from monies held under the bond resolution. The direct pay letters of credit relevant to variable rate bonds expire at various times through June 18, 2018. For those bonds with liquidity provided by a standby bond purchase agreement, secured by an agency of the federal government, or where the conduit borrower is acting as its own liquidity provider, the trustee is required to draw from monies held under the bond resolution or from the liquidity provider an amount sufficient to pay the purchase price of bonds delivered to it and that are unable to be remarketed. The standby bond purchase agreements expire at various times through April 6, 2015.

The Authority issues debt on behalf of both public, primarily the State, and private institutions. The Authority has elected the option under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, to report conduit debt, primarily issued on behalf of private institutions, in its basic financial statements. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, the Authority is included in the basic financial statements of the State as a component unit. As such, bonds issued on behalf of the State are not considered conduit debt. Under GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Government Entities*, variable rate demand bonds should be reported as long-term debt if certain conditions are met; otherwise, they should be reported as a current liability. In the case of its conduit variable rate demand bonds, the Authority is not a party to the liquidity or takeout agreement with the provider, all liquidity provider fees are paid directly by the conduit borrower and are not an obligation of the Authority, and, in some cases, the conduit borrower acts as its own liquidity provider. Such debt, and the related leases and loans receivable, is classified as current on the Statement of Net Assets. With respect to variable rate demand bonds issued on behalf of its public clients, those bonds secured by liquidity or takeout agreements that expire within one year are classified as current on the Statement of Net Assets. All variable rate demand bonds, and the related leases and loans receivable, are disclosed in note 4 Leases and Loans Receivable, note 9(b) Maturities of Bonds and Notes, and note 9(c) Swap Payments and Associated Bonds and Notes Outstanding in accordance with the their scheduled amortization. As of March 31, 2012 and 2011, approximately $2.2 and $2.7 billion of variable rate demand bonds were classified as current on the Statements of Net Assets.

The Authority, on behalf of the State, has purchased letters of credit and standby purchase agreements from various providers to ensure the liquidity needs of variable rate demand bonds can be met. As of March 31, 2012, these agreements covered $678 million of variable rate demand bonds outstanding with costs ranging from 0.65% per annum to 0.8% per annum of the amount of credit provided with expiration dates ranging from January 10, 2014 to December 11, 2014. In addition, remarketing agents receive annual fees of between 0.05% per annum and 0.1% per annum of the outstanding principal amount of the bonds.

If the remarketing agent is unable to resell any bonds that are tendered by the bondholders within six months of the tender date, each agreement with the applicable liquidity provider requires the bonds to accelerate and be payable in 6 to 10 equal semi-annual principal repayments bearing an adjustable interest rate equal to the higher of the bank’s prime lending rate or an index tied to the Federal Funds rate. If all the takeout agreements were to be exercised because all outstanding $678 million demand bonds were put and not resold, the Authority would be required to pay between $98 million and $161 million a year in principal repayments plus interest for 5 years under the installment loan agreements. The Authority is only obligated to make such payments from monies paid to it by the State pursuant to financing agreements related to the bonds.

The Authority, on behalf of the City, has purchased a letter of credit from a provider to ensure the liquidity needs of variable rate demand bonds can be met. As of March 31, 2012, this agreement covered $126 million of variable rate demand bonds outstanding at a cost of 0.20% per annum of the amount of credit provided which expires on June 15, 2013. In addition, the remarketing agent receives annual fees of 0.08% per annum of the outstanding principal amount of the bonds.

If the remarketing agent is unable to resell any bonds that are tendered by the bondholders within three months of the tender date, the agreement with the liquidity provider requires the bonds to accelerate and be payable in 20 equal quarterly principal repayments bearing an adjustable interest rate equal to the higher of the bank’s prime lending rate or an index tied to the Federal Funds rate. If the takeout agreement was to be exercised because all outstanding $126 million demand bonds were put and not resold, the Authority would be required to pay $25 million a year in principal repayments plus interest for 5 years under the installment loan agreement. The Authority is only obligated to make such payments from monies paid to it by the City pursuant to financing agreements related to the bonds.

Certain bonds and notes have the respective institution's cash and investments, surety bonds, or letters of credit pledged to collateralize certain reserve requirements. As of March 31, 2012 and 2011, the amounts pledged are as follows (in thousands):

	2012	2011
Cash and investments (at fair value)	$ 13,920	15,857
Surety bonds	296,847	302,702
Letters of credit	8,414	18,214

Under certain circumstances, if the credit ratings of the surety bond provider fall below a certain level, the related reserve funds are required to be funded with cash and investments, deposits of which are to be made by the ultimate obligor on the bonds in ten equal semi-annual installments beginning on the first day of the bond year following such downgrade. To date as of March 31, 2012, the credit ratings of five surety bond providers providing a total of $125 million in surety bonds have fallen below the level requiring such actions. Funding of the related reserve funds commences on varying dates based on the provisions of the respective bond resolutions. There are no similar provisions under the terms of letters of credit. If the rating of the letter of credit provider is downgraded, the ratings on the related bonds may be downgraded.

(b) Maturities of Bonds and Notes

Maturities of bonds and notes are as follows (in thousands):

	Principal	Interest	Total
Fiscal years ending March 31:			
2013	$ 1,961,475	2,054,537	4,016,012
2014	2,128,325	1,973,136	4,101,461
2015	2,108,314	1,873,565	3,981,879
2016	2,058,721	1,777,764	3,836,485
2017	1,963,898	1,683,220	3,647,118
2018-2022	9,790,390	7,045,758	16,836,148
2023-2027	8,810,508	4,832,685	13,643,193
2028-2032	6,627,656	2,924,969	9,552,625
2033-2037	5,365,458	1,482,154	6,847,612
2038-2042	3,312,271	430,811	3,743,082
2043-2047	257,090	62,429	319,519
2048-2052	109,830	8,758	118,588
Total	$ 44,493,936	26,149,786	70,643,722

(Continued)

(c) Tax-Exempt Leasing Program

The Authority offers a tax-exempt leasing program (TELP) that utilizes the Authority's tax exempt financing authority. In a TELP lease, the Authority, as the lessee, subleases the equipment to the borrower and thereafter has no security interest in the equipment. The repayments made to the Authority are assigned to and made directly to the lessor. The repayments are nontaxable income to the lessor. The leases do not constitute debt of the Authority or the State. Since the Authority assigns both its security interest in the equipment and its rights to receive sublease repayments to the lessor, and the Authority has no active role in managing or administering the leases, the TELP leases are not included in the Statements of Net Assets. The total amount of TELP leases outstanding as of March 31, 2012 and 2011 were approximately $679 million and $543 million, respectively.

(10) Derivative Instruments

Article 5-D of the State Finance Law authorizes the State and various public authorities that issue State – supported bonds to enter into interest rate exchange agreements (swap agreements) up to certain limits and also limits the amount of outstanding variable rate State-supported bonds. Additionally, Section 2926 of the Public Authorities Law authorizes the Authority to enter into swap agreements up to certain limits in connection with bonds and notes issued on behalf of a municipality for court facilities and combined occupancy structures and bonds and notes issued on behalf of a municipality for health facilities. Pursuant to these authorizations, as a means to lower borrowing costs for the State and the City and to cost effectively support their strategies to diversify their debt portfolios with a combination of fixed and variable rate debt, at various times, the Authority enters into swap agreements. The lease and financing agreements entered into by the Authority with the State or the City include terms that obligate the State or City, subject to annual appropriation, to pay to the Authority all amounts due in connection with these swap agreements and obligate the Authority to pay the State or City any amounts received in connection with the swap agreements. These swap repayment terms in the lease and financing agreements are considered derivative instruments with terms reciprocal to those of the swap agreements. When analyzed concurrently, because of the reciprocal terms, the swap agreements and the swap repayment terms in the lease and financing agreements with the State and the City are not considered to be associated with hedgeable items. Consequently, the swap agreements and the swap repayment terms in the lease and financing agreements are regarded as investment derivatives.

At March 31, 2012, the Authority had a total of 25 pay-fixed, receive-variable swap agreements outstanding with a total notional amount of $779 million and a negative fair value of $141 million and reciprocal swap repayment terms in lease and financing agreements with a total notional amount of $779 million and a positive fair value of $141 million. The Authority did not enter into any new swap agreements or related lease and financing agreements during the fiscal year ended March 31, 2012, however, the Authority terminated swap agreements with a total notional amount of $126 million in connection with New York City-supported bonds and effectively terminated the corresponding swap repayment terms in the lease and financing agreements. The terminations resulted in $24 million of swap termination payments received from the counterparties which were paid to the City to effectively terminate the swap repayment terms.

At March 31, 2011, the Authority had a total of 25 pay-fixed, receive-variable swap agreements outstanding with a total notional amount of $784 million and a negative fair value of $67 million and reciprocal swap repayment terms in lease and financing agreements with a total notional amount of $784 million and a positive fair value of $67 million. The Authority had two pay-variable, receive-fixed swap agreements outstanding with a total notional amount of $126 million and a positive fair value of $5 million and reciprocal swap repayment terms in lease and financing agreements with a total notional amount of $126 million and a negative fair value of $5 million. The Authority did not enter into any new swap agreements or related lease and financing agreements during the fiscal year ended March 31, 2011, however, the Authority terminated swap agreements with a total notional amount of $393 million in connection with State-supported bonds and effectively terminated the corresponding swap repayment terms in the lease and financing agreements. The terminations resulted in $14 million of swap termination payments received from the counterparties which were paid to the State to effectively terminate the swap repayment terms.

The table below summarizes the fair values, notional amounts and changes in fair value of derivative instruments outstanding as of March 31, 2012 and 2011. Bracketed amounts denote negative values.

Type of derivative instrument	Notional amounts (in thousands)	Fair value classification	Swap fair value (in thousands)	Change in fair value classification	Change in fair value (in thousands)
Investment derivatives:					
March 31, 2012:					
Pay-fixed, receive-variable swaps:					
Swap agreements	$ 778,853	Investment	$ (141,097)	Investment income	$ (74,443)
Pay-variable, receive-fixed swaps:					
Lease and financing agreements	778,853	Investment	141,097	Investment income	74,443
Grand Total – March 31, 2012			$ —		$ —
March 31, 2011:					
Pay-fixed, receive-variable swaps:					
Swap agreements	$ 783,653	Investment	$ (66,654)	Investment income	$ (13,540)
Lease and financing agreements	125,500	Investment	(5,371)	Investment income	(3,445)
Pay-variable, receive-fixed swaps:					
Swap agreements	125,500	Investment	5,371	Investment income	3,445
Lease and financing agreements	783,653	Investment	66,654	Investment income	13,540
Grand total – March 31, 2011			$ —		$ —

Fair value — The fair values of the swap agreements and the swap repayment terms in the lease and financing agreements were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the agreements, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the agreements.

Credit risk — As of March 31, 2012, the Authority was not exposed to credit risk on the swap agreements with $141 million in negative fair values. Since changes in interest rates affect the fair values of swap agreements, it is possible that the swap agreements with negative fair values become positive, and that the swap agreements with positive fair values increase in value, which would expose the Authority to increased credit risk. The Authority's potential credit risk on the swap agreements is reduced due to the lease and financing agreements in place that obligate the State or City to pay to the Authority, subject to annual appropriation, all amounts due in connection with the swap agreements. Certain swap agreements include setoff provisions should a swap agreement terminate. These setoff provisions permit, at the Authority's option, or in some cases, at the option of the nondefaulting or nonaffected party, all swap agreements with the given counterparty related to the bonds to terminate and to net the transactions' fair values so that a single sum will be owed by, or owed to, the Authority. Should the counterparties fail to perform according to the terms of the swap contracts, as of March 31, 2012, the Authority faces a maximum credit risk exposure related to the swaps' net positive fair value of $0.

As of March 31, 2012, the Authority was exposed to credit risk on the swap repayment terms with $141 million in positive fair values because the State's and the City's obligations under the lease and financing agreements are subject to annual appropriation.

Authority guidelines require that, for swap agreements entered into under provisions of Article 5-D of the State Finance Law, counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agency for such counterparty shall also be within the three highest investment grade categories, or the payment obligations of the counterparty are unconditionally guaranteed by an entity with such credit ratings. Authority guidelines require that, for swap agreements entered into under the provisions of Section 2926 of the Public Authorities Law, counterparties have credit ratings from at least two nationally recognized statistical rating agencies that are within the three highest investment grade categories, or the payment obligations of the counterparty are unconditionally guaranteed by an entity with such credit ratings. In the event that a counterparty's ratings are reduced below certain ratings thresholds, the counterparty is required to comply with the collateral requirement provisions whereby the counterparty will be required to post collateral in an amount equal to 102% of the swap termination value under certain conditions. Collateral is required to be posted at any time that the counterparty does not have at least one rating in the second highest rating category, or any of the ratings assigned to the counterparty are below the three highest rating categories, and credit exposure exists on the valuation date. The Authority monitors the values of the related swap agreements on a daily basis to determine if collateral is required to be posted. As of March 31, 2012, there was no requirement for collateral to be posted. Collateral on all swap agreements related to State-supported bonds is to be held by a third-party custodian. Collateral on all swap agreements related to City-supported bonds may be held by either a third-party custodian or the Authority. All collateral may be in the form of direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America, or other securities permitted by law and agreed upon in writing by the Authority and the counterparty. The credit ratings for the Authority's counterparties at March 31, 2012 are as follows:

	Credit ratings March 31, 2012		
	Moody's	**S&P**	**Fitch**
Counterparties:			
Citibank, N.A., New York	A1	A	A
Goldman Sachs Mitsui Marine Derivative Products, L.P.	Aa1	AAA	NA
JPMorgan Chase Bank	Aa1	A+	AA-
Merrill Lynch Derivative Products AG	Aa3	AAA	NR
Morgan Stanley Capital Services, Inc.	A2	A-	A
UBS AG	Aa3	A	A
New York State General Obligations	Aa2	AA	AA
New York State Mental Health Services Facilities Improvement Revenue Bonds	NR	AA-	AA-
New York City General Obligations	Aa2	AA	AA

Additionally, certain swap agreement payments made by the Authority are insured by various municipal bond insurance companies.

(11) Debt Refundings

The Authority has issued bonds on behalf of various institutions to defease existing revenue bonds. Under the terms of the resolutions for the defeased bonds, investments have been deposited in irrevocable trusts with trustee banks to provide sufficient amounts to be used solely for the payment of scheduled debt service on these bonds. As a result, the refunded bonds, certain of which are still held by investors, are considered to be defeased pursuant to the applicable bond resolutions and the liabilities for those bonds and related investments have been removed from the Statements of Net Assets. As of March 31, 2012 and 2011, there are outstanding revenue bonds totaling approximately $3.0 billion and $2.2 billion, respectively, which were considered defeased under existing accounting standards; accordingly, such bonds and the related investments placed in trust are not included in the basic financial statements.

The refundings during the fiscal year ended March 31, 2012, involved the issuance of $1.4 billion par value of fixed rate bonds (new bonds) with an average interest rate of 4.51% to refund $1.6 billion par value of previously issued fixed rate bonds (refunded bonds) with an average interest rate of 5.18%. The proceeds of $1.6 billion from the sale of new bonds, including net original issue premium, plus $77 million of refunded bond monies and deposits from institutions, were deposited in irrevocable trusts (escrow accounts) and used to purchase United States Government securities as described above. The new bonds also funded reserve requirements and provided for costs of issuance. These fixed rate refundings resulted in a decrease of $153 million in aggregate future debt service payments and a net present value economic gain of $93 million for the fiscal year ended March 31, 2012.

The refundings during the fiscal year ended March 31, 2011, involved the issuance of $978 million par value of fixed rate bonds (new bonds) with an average interest rate of 4.48% to refund $1.1 billion par value of previously issued fixed rate bonds (refunded bonds) with an average interest rate of 5.24%. The proceeds of $1.0 billion from the sale of new bonds, including net original issue premium, plus $95 million of refunded bond monies and deposits from institutions, were deposited in irrevocable trusts (escrow accounts) and used to purchase United States Government securities as described above. The new bonds also funded reserve requirements and provided for costs of issuance. These fixed rate refundings resulted in a decrease of $185 million in aggregate future debt service payments and a net present value economic gain of $95 million for the fiscal year ended March 31, 2011.

(12) Commitments and Contingencies

(a) Litigation

The Authority has been named as a defendant in various pending actions which seek to recover damages for alleged wrongful death, personal injuries, loss of service or medical expenses, and violation of civil rights. There are other pending or threatened actions or matters with regard to breach of contract, retained percentages, damages, work at certain projects, liens filed with the Authority, and other claims involving contracts of the Authority. It is management's opinion, based upon the advice of General Counsel, that these pending or threatened matters are covered either by the Authority's insurance program, surety bonds filed with the Authority, indemnification from the State or its agencies and municipalities under applicable statutes or other agreements (subject to the availability of funds), are recoverable from institutions, or the Authority has sufficient resources to meet any potential liability associated with such pending or threatened actions or matters and, therefore, could not be deemed to have a material adverse effect on the Authority.

(b) Construction Commitments

In the normal course of business, the Authority enters into various commitments for construction costs. Such commitments, when added to the costs already incurred, are not expected to exceed the total amount of indebtedness issued and other available funding, including future authorized bond issues. Unpaid commitments totaled approximately $1.4 billion at March 31, 2012.

(c) Risk Management

The Authority is exposed to various risks of loss, including torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; accidents; and natural disasters. The Authority maintains commercial insurance coverage, subject to certain limits and deductible/retention provisions, for each of these risks of loss through the purchase of general liability, excess liability, property, builder's risk, directors and officers, blanket crime, business travel accident, auto liability, and workers compensation.

(13) Pension Plan

The Authority participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Term Life Insurance Plan (the Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller promulgates rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their monies. The Systems issue a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12236.

Funding Policy

The Systems are contributory at the rate of 3% of salary for employees with less than ten years of membership. Under Chapter 49 of the Laws of 2003, the annual contribution rates are based on the value of the State Common Retirement Funds as of the preceding April, with a minimum contribution of 4.5%. The Authority's required contributions for the fiscal years ended March 31 were as follows (in thousands):

2012	$ 8,567
2011	5,743
2010	3,848

The Authority's contributions made to the Systems were equal to 100% of the contributions required for each year, plus the current cost of early retirement incentives, if any. There was a cost of $2.1 million for early retirement incentives during the fiscal year ended March 31, 2012. There were no costs for early retirement incentives during the fiscal years ended March 31, 2011 and 2010.

(14) Postemployment Benefits

(a) Plan Description

The Authority is a participating employer in the New York State Health Insurance Program (NYSHIP), which is administered by the State of New York as an agent multiple employer defined benefit plan. Under the plan, the Authority provides certain healthcare benefits for eligible retired employees and their dependents under a single-employer noncontributory healthcare plan. Article XI of the New York State Civil Service Law assigns the authority to NYSHIP to establish and amend the benefit provisions of the plans and to establish maximum obligations of the plan members to contribute to the plan. Subject to collective bargaining agreements, the Authority's Board is authorized to establish the contribution rates of Authority employees and retirees below those set by Civil Service Law.

Eligibility for the Authority's Plan requires employees to: be enrolled as a NYSHIP enrollee or a dependent of a NYSHIP enrollee at the time of retirement, be eligible to receive a pension from the NYS Retirement System and to have ten (10) years of State service. In calculating the ten (10) year service requirement, all of the employee's service need not be with the Authority, but may be a composite of New York State service elsewhere, with a minimum of one (1) year with the Authority immediately preceding retirement. Employees with no prior State service must work a minimum of ten (10) years with the Authority before they and their dependents are eligible for the retirement medical benefits.

The Authority pays 100% of the cost of single coverage and 75% of the cost of dependent coverage for employees who retired before January 1, 1983. The Authority pays 90% of the cost of single coverage and 75% of dependent coverage for employees who retire on or after January 1, 1983. A vestee is an Authority employee vested as a member of the retirement system administered by the State, who has withdrawn from State service after meeting the Authority's minimum service requirement but has not met the age requirement for continuing health insurance. During the fiscal year ended March 31, 2012, the Authority had an average of 240 retirees, 22 survivors and no vestees. At March 31, 2012 the Authority employed 135 employees eligible for retiree benefits. NYSHIP does not issue a stand-alone financial report and NYSHIP's agent activities are included within the financial statements of the State of New York.

The Authority accounts for its OPEB obligations in accordance with the provisions of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Through the fiscal year ended March 31, 2007, OPEB provisions were financed on a pay-as-you-go basis. The first actuarial valuation date was April 1, 2006 and the most recent actuarial valuation date was April 1, 2010. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment mortality and the healthcare cost trend rate. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about the plan.

The Authority's annual OPEB cost for the plan is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws have a financial impact on employers who sponsor postretirement healthcare benefits and, therefore, are reflected in the Authority's GASB 45 valuation as of April 1, 2010. An adjustment was made to reflect the effect of the benefit mandates as well as the excise tax that is applicable starting in 2018. The excise tax is 40% of the excess amount the plan's healthcare cost exceeds limits as defined in the legislation. The 2018 limits are $10,200 for active employees with single coverage and $1,850 for retirees with single coverage. The limits for family coverage are $27,500 and $30,950 for active employees and retirees respectively. The limits are scheduled to increase with the Consumer Price Index (CPI) plus 1% in 2019 and with CPI for all years thereafter. Based on a comparison of projected premiums to these thresholds, the Authority expects to pay an excise tax in 2020.

(b) Funding

The Authority has not funded a qualified trust or its equivalent required by GASB Statement No. 45. The Authority's operating expenses are paid from fees collected from clients. As of March 31, 2012, the portion of the OPEB liability allocable to certain public clients was 87% and will be paid from future fees to be collected. A receivable in the amount of $47.8 million is included in the caption "Other Receivables" noncurrent in the Statement of Net Assets at March 31, 2012. On March 26, 2008, the Board authorized the establishment of a reserve for the portion of the OPEB liability allocable to nonprofit healthcare institutions, independent colleges, universities, and other nonprofit institutions, and certain New York State agencies, which was initially funded as of March 31, 2008. As of March 31, 2012, the reserve was funded with $3.8 million. In addition, $3.9 million was due to the reserve from client program operating funds for the related change in the OPEB liability.

(c) Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the April 1, 2010 actuarial valuation, the frozen entry age actuarial cost method was used. The actuarial assumptions included a 3.560% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10% (net of administrative expenses) including inflation, declining each year to an ultimate trend rate of 5%. Both rates include a 3% inflation assumption. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The Authority elected to use an amortization period of thirty years.

(d) Annual OPEB Cost and Net OPEB Obligation

The Authority's annual OPEB cost and net OPEB obligation of the plan as of March 31, 2012, 2011, and 2010 are as follows (in thousands):

		2012	2011	2010
Annual Required Contribution:				
Normal cost	$	8,206	8,721	4,391
Amortization of unfunded AAL		7,258	6,801	5,951
Interest on Net OPEB obligation		1,519	1,054	884
Adjustment to annual required contribution		(1,485)	(1,031)	(808)
Annual OPEB cost		15,498	15,545	10,418
Contributions made		(3,107)	(2,530)	(2,077)
Increase in net OPEB obligation		12,391	13,015	8,341
Net OPEB obligation, beginning of year		42,640	29,625	21,284
Net OPEB obligation, end of year	$	55,031	42,640	29,625
Percentage of Annual OPEB Cost contributed		20.05%	16.28%	19.94%

(e) Funded Status and Funding Progress

The funded status of the plan as of April 1, 2011 (the most recent valuation date) was as follows (in thousands):

Actuarial Accrued Liability (AAL)	$	220,941
Funded OPEB plan assets		—
Unfunded Actuarial Accrued Liability (UAAL)	$	220,941
Funded Ratio		—%
Covered payroll	$	46,820
UAAL as percentage of covered payroll		471.89%

(Continued)

(15) Unrestricted Net Assets

Unrestricted net assets include amounts that are not appropriable for operating expenses and are Board designated for a specific future use. Designations at March 31, 2012 and 2011 are as follows (in thousands):

		2012	2011
Designated:			
Health care institution assistance	$	25,507	25,451
Advance funding new projects		5,000	5,000
Coverage for financial risks associated with directors and officers liability insurance policies		2,000	2,000
Women/Minority Business Enterprises capital access, training and development		3,474	3,392
Reserve for replacement of corporate facilities		4,972	5,384
Total designated		40,953	41,227
Undesignated		25,135	26,341
Total net assets unrestricted	$	66,088	67,568

REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
(A Component Unit of the State of New York)

Required Supplementary Information

Schedule of Funding Progress for the Retiree Health Plan (Unaudited)

(In millions)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) frozen entry age cost method (b)	Unfunded AAL (UAAL) (b – a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b – a)/c)
April 1, 2010	$ —	208	208	—%	$ 50	416%
April 1, 2008	—	148	148	—	43	348
April 1, 2006	—	128	128	—	44	291