NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2012 and 2011

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Contents

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
New York State Urban Development
Corporation:

We have audited the accompanying consolidated balance sheets of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of March 31, 2012 and 2011, and the related consolidated statements of revenue, expenses and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 8, 2012, on our consideration of New York State Urban Development Corporation and Subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 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 inquires 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 8, 2012

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

March 31, 2012 and 2011

Our discussion and analysis of New York State Urban Development Corporation and Subsidiaries' ("UDC" or the "Corporation"), doing business as Empire State Development ("ESD"), financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2012. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

ESD continued its efforts to promote economic development throughout the State during fiscal 2012. Its mission is to promote a vigorous and growing economy, encourage the creation of new jobs and economic opportunities, increase revenues to the State and its municipalities, and achieve stable and diversified local economies. Through the use of loans, grants, tax credits and other forms of financial assistance ESD strives to enhance private business investment and growth to spur job creation and support prosperous communities across the State. To assist the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws.

To enhance ESD's business outreach and emphasize local priorities, New York's Regional Economic Development Council Capital Fund Program ("Regional Council Fund") was established in April 2011 as part of the State's 2011-2012 budget. The Regional Council Fund, which is administered by ESD, makes available $130.0 million of capital grant funding for the State's Regional Economic Development Council Initiative and will help drive regional and local economic development across New York State in cooperation with ten Regional Economic Development Councils ("Regional Councils"). Regional Council Funds are allocated among the State's ten regions, each represented by a Regional Council, through a process that includes each Regional Council's development and implementation of a five-year strategic plan for its region that sets out a comprehensive vision for economic development and specific strategies to implement that vision. ESD's role in the State's Regional Economic Development Council Initiative is to administer the Regional Council Fund and any other funding, allocated annually, that is awarded through a competitive Consolidated Funding Application review process.

In addition, during fiscal 2012, through programs such as the Empire State Economic Development Fund, the Upstate Regional Blueprint Fund and Restore NY Communities, which promote the economic development and health of New York State by facilitating the creation and/or retention of jobs or increased business activity, the ESD Directors approved financial assistance for 179 companies and organizations. During this period, the $264.1 million ESD investment approved by the ESD Directors leveraged an additional $2.047 billion in total investment, resulting in the retention of nearly 20,000 jobs and the creation of more than 5,000 jobs. The ESD Directors also approved a $300.0 million grant to support five of the world's leading semi conductor companies in creating the next generation of computer chip technology, which includes private investment of $4.550 billion and the creation of 350 jobs.

In an effort to further encourage economic growth, in June 2011, ESD's small business assistance was broadened through the enactment of legislation that established the use of State Small Business Credit Initiative (SSBCI) funds for three economic development programs. The programs enable small businesses to leverage new capital and credit to help them create private sector jobs. The SSBCI is part of the federal Small Business Jobs Act of 2010, which supports state-level small business credit programs. New York's access to $55.4 million in SSBCI funds is expected to generate over $554.0 million in new private capital for small business. The SSBCI funding will be used to support three separate small business development programs. The Innovate NY Fund, a new seed-stage equity fund, will support innovation, job creation and high growth entrepreneurship throughout the State. Approximately $26.0 million is allocated for this program. The Capital Access Program, a newly expanded program, will provide matching funds to loan loss reserve pools at financial institutions as an incentive to increase small business lending. Approximately $19.0 million is allocated for this program. New York State Surety Bond Assistance Program, a newly activated program, provides credit support, training and technical assistance to help small and minority – and women-owned businesses secure surety bonds. Approximately $10.0 million has been allocated to this program.

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

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESD in 2005 and NYCCDC issued $700.0 million in revenue bonds to fund the expansion and renovation of the Jacob K. Javits Convention Center. The bonds were secured by a hotel unit fee which generated $39.5 million and $39.3 million for the fiscal years ended March 31, 2012 and 2011, respectively. In June 2010, the $38.7 million expansion was completed and the new structure has been well received by the convention industry and is marketable to a new customer base. Construction on the renovation started in July 2010 and includes, among other improvements, replacement of the exterior curtainwall, the roof and heating and cooling system. The roof will be the largest green roof on the eastern seaboard, a program that, when completed, will achieve LEED silver status. During fiscal 2012, the project achieved 60% completion and remains under budget and ahead of schedule. The renovation is expected to be completed in 2013.

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office building in fiscal 2007 as a part of the redevelopment of Moynihan Station. ESD financed $105.0 million in order to complete the transaction. Funding of $30.0 million was received from the Port Authority of New York and New Jersey and a loan was secured from Citigroup Global Markets, Inc. for $75.0 million for a term of three years, which was refinanced in fiscal 2010 for an additional three years for $91.8 million and includes the capitalized interest. In addition, $130.0 million of seller's financed debt was obtained directly from the U.S. Postal Service to assist in completing the acquisition. At March 31, 2012, the remaining combined balance of this debt is $146.8 million. Both of the financing agreements expire in 2013. The current plan for the project is to build a new intercity train hall for Amtrak within the Farley Post Office Building in two distinct phases. Phase I, which is currently out for bid, will encompass expansion of the West End Concourse, a platform ventilation system and 33rd Street connector and subway work. MSDC and Amtrak have entered into a Memorandum of Understanding for Amtrak to locate its intercity train station in the new Moynihan Station in the Farley Building upon completion. Funding for this construction will come from a combination of federal, Metropolitan Transit Authority and Port Authority of New York and New Jersey grants, including an $83.0 million Transportation Investments Generating Economic Recovery (TIGER) grant from the U.S. Department of Transportation. Construction of Phase 2 is dependent upon identification of funding and need not await the completion of Phase I work. The private development of the remainder of the Farley complex is subject to a further agreement with the designated developer. Negotiations are ongoing.

New York State designated ESD as the lead agency in providing assistance to businesses affected by the events of September 11, 2001. The United States Department of Housing and Urban Development ("HUD") gave ESD the ability to draw grant funds of up to $700.0 million to fund these efforts. In November 2001, the Board of Directors authorized the creation of the Lower Manhattan Development Corporation ("LMDC") to assist in the economic recovery and revitalization of lower Manhattan following the events of September 11, 2001. HUD provided LMDC the authority to draw grants up to $2.783 billion to fund these efforts. As of March 31, 2012, more than $2.853 billion of the total $3.483 billion in funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

Erie Canal Harbor Development Corporation ("ECHDC") is guided by its mission to revitalize Western New York's waterfront and restore economic growth to Buffalo. ECHDC has achieved significant milestones in terms of waterfront development and its goal of working to accomplish public/private partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. Noteworthy accomplishments during fiscal 2012 include: permanent extension of the Central Wharf resulting in the creation of 1,000 linear feet of public waterfront access; funding over 300 events and activities at Canalside bringing over 400,000 visitors to Buffalo; improvements to the Historic District that include opening a takeout food stand, addition of a sand play area on the Wharf, temporary washrooms for boaters and chairs, picnic tables and umbrellas for public use.

During fiscal 2012, work at the construction site for the Barclays Center at Atlantic Yards has increased significantly. In addition, the developer is also constructing a new subway entrance at the tip of the arena and construction has begun on aspects of the permanent rail yard which are necessary to re-construct the Carlton Avenue Bridge. The developer has a contractual obligation to complete both these projects before the arena's scheduled opening in September 2012.

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

During fiscal 2012, the assets, records and liabilities of the Small Business Technology Investment Fund ("SBTIF") were transferred to ESD as part of the effort to increase government efficiency. SBTIF provides early stage high-tech companies throughout the State with a potential source of venture capital to promote new job creation and economic growth. As of March 31, 2012, the equity of the fund was $13.8 million.

ESD's early mission when created in 1968, was to build affordable housing in New York State. Although the Corporation has built no new projects since the mid-1970's it still services mortgages on 50 housing projects and realized revenue from Federal subsidies and repayments from the owners of the projects.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2012 and 2011:

SUMMARY OF CONSOLIDATED BALANCE SHEETS

Assets	2012	2011
	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 181,119	157,104
Other current assets	2,539,544	3,129,088
Total current assets	2,720,663	3,286,192
Non-current assets:		
Investment securities - restricted	211,051	268,005
Loans and leases receivable	369,644	389,432
Due from State of New York	7,929,436	7,265,038
Due from Port Authority of New York and New Jersey	184,009	202,883
Due from New York Job Development Authority	26,082	25,896
Capital assets, net	1,400,442	1,255,399
Other assets	154,759	119,933
Total non-current assets	10,275,423	9,526,586
Total assets	$ 12,996,086	12,812,778
Liabilities and Net Assets		
Current liabilities	1,367,780	1,152,165
Non-current liabilities	9,609,692	9,689,136
Total liabilities	10,977,472	10,841,301
Minority interest	145,164	134,137
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	430,178	545,555
Total restricted	627,732	743,109
Invested in capital assets, net of related debt	1,245,718	1,094,231
Total net assets	1,873,450	1,837,340
Total liabilities and net assets	$ 12,996,086	12,812,778

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis, Continued

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

	2012	2011
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
HUD subsidy	$ 11,216	12,519
Housing companies	13,199	11,499
Nonresidential projects	7,969	8,493
Interest on revenue bonds	67,763	75,765
Hotel tax revenue	39,493	39,309
Reimbursed grants	79,919	272,153
Economic development grants	825,424	786,952
State appropriation for programs	24,075	13,378
Other revenue	54,294	59,695
Total operating revenue	1,123,352	1,279,763
Operating expenses:		
Interest related to:		
Corporate purpose bonds	7,707	10,479
Corporate loan	5,395	5,395
Interest on revenue bonds	67,763	75,765
Reimbursed grants	52,174	155,714
Economic development grants	835,991	790,788
General and administrative	58,839	127,965
Subsidiary program and administrative	51,907	332,735
Pollution remediation	(2,273)	377
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(1,765)	(4,070)
Depreciation	15,348	12,484
Total operating expenses	1,091,086	1,507,632
Minority interest	(11,027)	(9,292)
Operating income (loss)	21,239	(237,161)
Non-operating revenue	366,391	354,851
Non-operating expenses	(365,374)	(352,765)
Excess (deficiency) of revenue over expenses	22,256	(235,075)
Net assets at beginning of year	1,837,340	2,072,415
Equity in Small Business Technology Investment Fund	13,854	-
Net assets at end of year	$ 1,873,450	1,837,340

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $181.1 million and $157.1 million at March 31, 2012 and 2011, respectively. The increase is primarily due to the receipt of certain non-recurring payments related to various corporate and subsidiary programs, economic development projects and financing fees.

Capitalization

As of March 31, 2012, UDC had $116.3 million, net of unamortized premium, in corporate purpose debt outstanding. No new corporate purpose debt was issued during fiscal year 2012 and 2011. In addition, it had $9.1 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds to enable it to engage in certain projects relating to financing of State Facilities, economic development activities, certain housing assistance projects and programs and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In December of fiscal 2012, UDC issued $702.4 million State Personal Income Tax Revenue Bonds (General Purpose), $545.5 million Series 2011A and $156.9 million Series 2011B (Federally Taxable). The Series 2011A Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs: Downstate Regional Projects, the Downstate Revitalization Fund, the Empire State Economic Development Fund, the Empire Opportunity Fund, Luther Forest infrastructure, the New York State Economic Development Program, the New York State High Technology and Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, Upstate City-by-City initiatives, the Capital Projects Fund and the Upstate Regional Blueprint Fund; capital projects and equipment purchases for State departments and agencies and other State entities; capital projects with respect to facilities and other property owned and operated by various agencies of the State, including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Office of Court Administration, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2011B Bonds are being issued to finance the development and/or expansion of an international computer chip research and development center, project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development project costs, grants or loans under the following projects or programs: the New York State Economic Development Assistance Program, the New York State Economic

Development Program, the New York State High Technology and Development Program, the Empire State Economic Development Fund, the Empire Opportunity Fund, the Capital Projects Fund, the Upstate Regional Blueprint Fund and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2011 Bonds were used to pay all or part of the cost of issuance of the Series 2011 Bonds.

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

UDC refunded revenue bonds during fiscal year 2012 using the proceeds and net original premium of the issuance of Service Contract Revenue Refunding Bonds, Series 2011A as follows: in September 2011, the proceeds of the $12.3 million Service Contract Revenue Refunding Bonds were utilized for the acquisition of the State Street Building (repayment and/or redemption of 2001 OGS debt) and the acquisition of the Hampton Plaza Facility (repayment and/or redemption of 1993 OGS debt).

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

In fiscal 2012, UDC redeemed $30.7 million of Corporate Purpose Senior Lien Bond Series 2001 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

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

Also outstanding as of March 31, 2012 is $699.7 million in revenue bonds issued by the New York Convention Center Development Corporation in November 2005.

Interest Rate Transactions

During fiscal 2012, there was no new activity with regard to the interest rate swap agreements.

Certain segments of the $1.0 billion interest rate swap agreements in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2011. In May 2010, $175.0 million Citibank and $45.0 million Goldman Sachs swaps were terminated. Previous to that, in August 2008, $125.0 million Morgan Stanley swaps were terminated and in June 2008, $250.0 million Bear Stearns and $205.0 million Goldman Sachs swaps were also terminated. As of March 31, 2012, the total amount of swap terminations related to the original 2002B Bonds was $800.0 million. The remaining $200.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

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

The Corporation, in fiscal 2005, entered into additional interest rate swap agreements in connection with its $649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and the $30.5 million State Personal Income Tax Revenue Bonds Series 2004B-2 (Economic Development and Housing). In September 2008, the swap agreement in connection with the State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative Products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4, $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. In September 2010, the remaining swaps for 2004A-2 and 2004B-2 were terminated.

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

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

Investment Ratings

As of March 31, 2012, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Capital Facility Revenue Bonds Series 1993A Refunding	N/A	AA-	AA-
Correctional Facility Service Contract - Refunding 2010B	N/A	AA-	AA-
Personal Income Tax Revenue Bonds Series 2003 A1	N/A	AAA	AA
Corporate Purpose Subordinate Lien 1996	A2	A	A
NY Convention Center Revenue Bonds Series 2005	A1	N/A	N/A

Excess (Deficiency) of Revenue over Expenses

The excess (deficiency) of revenue over expenses for the year ended March 31, 2012 was $22.3 million compared with ($235.1) million in the prior year. The increase is primarily due to the fact that fiscal year 2011 included the transfer of two major subsidiaries to a New York City-controlled entity which resulted in the reclassification of assets to expense.

Revenue

Operating revenue in the 2012 fiscal year approximated $1.123 billion compared with $1.280 billion in fiscal 2011.

Increases in operating revenue primarily occurred in the following categories:

- Hotel tax revenue increased by approximately $0.2 million as a result of continued increased tourism to New York State.
- Economic development grants funding increased by approximately $38.5 million due to an increase in activity within existing and new grant programs, including projects with Research Foundation of SUNY (Sematech), Aqueduct Video Lottery Gaming Facility, National September 11 Memorial, and Olympic Regional Development Authority.
- State appropriation for programs increased by approximately $10.7 million primarily due to an increase in economic development loan program activity.

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from HUD subsidy, housing companies and nonresidential projects decreased by approximately $0.1 million due to the reduction in housing and nonresidential receipts and an increase in mortgage refinancings.
- Reimbursed grants revenue decreased by approximately $192.2 million primarily due to a decrease in HUD grant funding of $103.5 million to LMDC and UDC as a result of reduced program activity. In addition, there was a reduction of $88.7 million as a result of the transfer of Brooklyn Bridge Park to a New York City-controlled entity in the prior fiscal year, the liquidation of certain assets of 42nd Street to the City of New York and the reduction in operational activity at LMDC.
- Interest on revenue bonds decreased by approximately $8.0 million due to the repayment and refunding of certain bonds.
- Other revenues decreased by approximately $5.4 million due primarily to the loss of income related to two large subsidiaries transferred to a New York City-controlled entity, a reduction in bond fee income and a reduction in prepayments on housing projects, offset by the receipt of third party funds for ECHDC, One Bryant Park and Open For Business.

Non-operating revenue for fiscal year 2012 approximated $366.3 million compared to $354.8 million in fiscal 2011. The increase of $11.5 million is primarily due to the issuance of certain bonds and related debt service expected from the State.

Expenses

Operating expenses in the fiscal year ended March 31, 2012 approximated $1.091 billion compared with $1.507 billion in fiscal 2011. The net decrease is primarily the result of changes in the following areas:

- Interest related to corporate purpose bonds decreased by approximately $2.8 million due to the early retirement of certain bonds.
- Interest on revenue bonds decreased by approximately $8.0 million due to the repayment and refunding of certain bonds.
- Reimbursed grant expense decreased by approximately $103.5 million primarily due to a decrease in HUD funding to LMDC and UDC based on a reduction in program activity.
- General and administrative expenses decreased by approximately $69.1 million due primarily to a non-recurring payment made in the prior fiscal year to support the construction of Tower Three at the World Trade Center Site and a general decrease in operating expenses, particularly personal services and associated fringe benefits.
- Subsidiary program and administrative expenses decreased by $280.8 million due primarily to the liquidation of two major subsidiaries in the prior fiscal year and an overall decrease in operating expenses for this fiscal year.
- Pollution remediation expenses decreased by approximately $2.6 million as result of a reduction in the estimate of work needed at the Midtown Plaza project in Rochester offset by the addition of remediation required at Erie Canal Harbor.
- Provision for losses (recoveries) on loans and leases receivable and investment in other assets decreased by approximately $2.3 million due to the payoff of two loans in the portfolio.
- Economic development grants increased by approximately $45.2 million due to an increase in activity within existing and new grant programs including projects with Research Foundation of SUNY (Sematech), Aqueduct Video Lottery Gamily Facility, National September 11 Memorial, and Olympic Regional Development Authority.
- Depreciation increased by $2.9 million primarily due to the completion of a phase of the expansion project at the Javits Convention Center.

Non-operating expenses approximated $365.4 million compared to $352.8 million in fiscal 2011. The increase of $12.6 million is due primarily to the issuance of certain bonds and the related debt service. These costs are provided by the State and therefore, have no negative impact on the Corporation's financial statements.

Anticipated Future Transactions

The following are anticipated to effect the Corporation subsequent to March 31, 2012:

- The Corporation purchased condominium units 7A - 12A and 14A of the 125 Maiden Lane condominium on November 9, 2006, for an aggregate purchase price of $62.5 million, with the intent of relocating the Corporate headquarters to these premises. After a careful review of the feasibility of such a move, ESD senior management during fiscal 2008, decided to begin the sale of the 125 Maiden Lane property.

  During fiscal 2012, Unit 14A remained on the market. Subsequent to the end of the fiscal year, ESD's broker located a buyer and a contract was executed on May 29, 2012. The total sales price is $5.9 million.

  During fiscal 2011, the Corporation received $9.0 million for the sale of Unit 9A. Unit 8A was sold during fiscal 2009 for a total sales price of $11.1 million. Units 7A - 12A were sold in fiscal 2008 for a combined total sales price of $40.0 million.

  The Corporation entered into a lease agreement on July 30, 2007 with Time Equities to remain in the condominium units at 633 Third Avenue. As a result of the decision to remain in the current headquarters, the gain on the sale of $74.4 million is being deferred over the six year lease term for the premises, which included the fiscal year ended March 31, 2012.

- The 42nd Street Development Land Use Improvement Project ("the Project") is a joint undertaking of ESD and the City of New York ("the City"). Pursuant to a series of Project Agreements executed between the parties beginning in the 1980s: (a) ESD has implemented the Project through its wholly-owned subsidiary 42nd St. Development Project, Inc. ("42DP"); (b) 42DP holds title to all Project properties, subject to a reversionary interest held by the City; and (c) the parties agreed, essentially, that completion of the Project would trigger reversion of title from ESD to the City. As of April 2011, the last Project site has been deemed substantially complete. Accordingly, ESD has been working with the City and New York City Economic Development Corporation ("NYC EDC") to coordinate both; (i) transfer of the Project's formal legal title from 42DP to the City; and (ii) transfer of the Project's administrative/financial oversight from ESD/42DP to NYCEDC. At present, NYCEDC has taken over the administrative/financial oversight responsibilities and all project revenue are paid directly to NYCEDC. ESD still holds formal legal title to the properties and anticipates title transfer to NYCEDC on or before July 1, 2012.

- ESD will administer a $30.0 million grant program for communities and businesses in New York State recovering from Hurricane Irene and Tropical Storm Lee that will accept grant applications in May and June 2012. The program consists of two components: $21.0 million through the Business Flood Recovery Grant Program to be directed to eligible entities that sustained direct, physical flood-related damage and $9.0 million through the Flood Mitigation Grant Program to be used to support flood mitigation or flood control projects in waterways impacted by the record-breaking storms.

- The Barclays Center, part of ESD's Atlantic Yards project, is scheduled to open in September 2012. Prior to its opening the developer is under contractual obligation to complete a new subway entrance on the arena site, re-construction of the Carlton Avenue Bridge and parking on the southern most block of the site. To date, the developer has met all contractual obligations.

- The Dormitory Authority of the State of New York ("DASNY") is contemplating issuing a Personal Income Tax ("PIT") bond within the upcoming months that, in part, would refund some of ESD's outstanding PIT bonds. Terms of DASNY's bond are not finalized but there are approximately seven series of ESD PIT bonds that are being considered as partial refunding candidates. Total dollar amount of these potential refunding candidates has not yet been determined but could be approximately $300.0 million.

Request for Information

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

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
March 31, 2012 and 2011

Assets		2012	2011
		(In thousands)	
Current assets:			
Cash and equivalents	$	25,428	9,125
Temporary investments		155,691	147,979
		181,119	157,104
Cash and investment securities restricted or designated for:			
Corporate purpose bonds		46,758	32,888
Revenue bonds		835,694	1,416,712
Economic development		297,599	191,776
Subsidiary and other purposes		824,401	921,188
		2,004,452	2,562,564
Loans and leases receivable:			
Residential mortgage loans		18,900	11,800
Non-residential, principally leases		4,150	3,490
Economic development loans		1,346	1,585
		24,396	16,875
Due from State of New York		441,586	470,231
Due from Port Authority of New York and New Jersey		25,606	21,612
Grants receivable		-	16,332
Other current assets		43,504	41,474
Total current assets		2,720,663	3,286,192
Investment securities restricted or designated for:			
Corporate purpose bonds		167,984	224,853
Revenue bonds		43,067	43,152
		211,051	268,005
Loans and leases receivable:			
Residential mortgage loans		241,486	265,382
Non-residential, principally leases		35,301	40,032
Economic development loans		92,857	84,018
		369,644	389,432
Due from State of New York		7,929,436	7,265,038
Due from Port Authority of New York and New Jersey		184,009	202,883
Due from New York Job Development Authority		26,082	25,896
Real property and office equipment, net		1,400,442	1,255,399
Other assets		154,759	119,933
Total non-current assets		10,275,423	9,526,586
Total assets	$	12,996,086	12,812,778

(Continued)

See accompanying notes to consolidated financial statements.

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

Liabilities and Net Assets	2012	2011
	(In thousands)	
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Corporate purpose bonds	$ 11,900	14,110
Revenue bonds	686,470	639,529
Other project revenue bonds	283	263
Other financing	152,225	60,395
	850,878	714,297
Accounts payable and accrued expenses	250,751	258,814
Grants payable	96,366	-
Interest payable	92,604	103,353
Other current liabilities	77,181	75,701
Total current liabilities	1,367,780	1,152,165
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Corporate purpose bonds	104,384	146,921
Revenue bonds	8,456,261	8,438,423
Project revenue bonds - New York Convention Center Development Corporation	709,828	710,494
Other project revenue bonds	927	1,210
Other financing	605	92,434
	9,272,005	9,389,482
Deferred interest income - mortgage	3,000	31,159
Repayable to related governmental entities	3,611	-
Pollution remediation liability	22,423	28,212
Other liabilities	308,653	240,283
Total non-current liabilities	9,609,692	9,689,136
Total liabilities	10,977,472	10,841,301
Minority interest	145,164	134,137
Net assets:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	430,178	545,555
Total restricted	627,732	743,109
Invested in capital assets, net of related debt	1,245,718	1,094,231
Total net assets	1,873,450	1,837,340
Commitments and contingencies (note 19)		
Total liabilities and net assets	$ 12,996,086	12,812,778

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Assets
Years ended March 31, 2012 and 2011

	2012	2011
Operating revenue:	(In thousands)	
Interest and finance income from:		
HUD subsidy	$ 11,216	12,519
Housing companies	13,199	11,499
Nonresidential projects	7,969	8,493
Interest on revenue bonds	67,763	75,765
Hotel tax revenue	39,493	39,309
Reimbursed grants	79,919	272,153
Economic development grants	825,424	786,952
State appropriation for programs	24,075	13,378
Other revenue	54,294	59,695
Total operating revenue	1,123,352	1,279,763
Operating expenses:		
Interest related to:		
Corporate purpose bonds	7,707	10,479
Corporate loan	5,395	5,395
Interest on revenue bonds	67,763	75,765
Reimbursed grants	52,174	155,714
Economic development grants	835,991	790,788
General and administrative	58,839	127,965
Subsidiary program and administrative	51,907	332,735
Pollution remediation	(2,273)	377
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(1,765)	(4,070)
Depreciation	15,348	12,484
Total operating expenses	1,091,086	1,507,632
Minority interest	(11,027)	(9,292)
Operating income (loss)	21,239	(237,161)

(Continued)

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Assets, Continued

	2012	2011
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 365,082	350,656
Interest and finance income earned on investment of revenue bond proceeds	534	2,067
Other investment income, including change in fair value	775	2,128
Total non-operating revenue	366,391	354,851
Non-operating expenses - interest and other costs on revenue bonds	(365,374)	(352,765)
Non-operating income	1,017	2,086
Excess (deficiency) of revenue over expenses	22,256	(235,075)
Net assets at beginning of year	1,837,340	2,072,415
Equity in Small Business Technology Investment Fund	13,854	-
Net assets at end of year	$ 1,873,450	1,837,340

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2012 and 2011

	2012	2011
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 32,384	32,511
State appropriation received for interest on debt	67,763	75,765
Other operating receipts	57,294	59,695
Cash received from hotel tax revenue	39,243	38,240
Grants received	954,273	1,225,688
Interest payments on corporate purpose bonds	(8,259)	(11,102)
Interest payments on revenue bonds	(67,763)	(75,765)
Payments for general and administrative expenses	(133,934)	(445,614)
Grant payments	(768,323)	(1,041,859)
Payments for pollution remediation	14,995	(23,560)
Net cash provided by (used in) operating activities	187,673	(166,001)
Cash flows from non-capital financing activities:		
Retirement of corporate purpose bonds	(44,747)	(57,542)
Retirement of other project revenue bonds	(263)	(1,726)
Increase (decrease) in other liabilities	25,079	(58,634)
Net cash used in non-capital financing activities	(19,931)	(117,902)
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	702,275	2,149,956
Retirement of revenue bonds	(637,496)	(1,405,511)
Accrued interest payable on revenue bonds	(10,196)	9,076
Bond payments - New York Convention Center Development Corporation, net of issuing costs	(667)	(660)
Advances on behalf of State of New York for special projects	(635,753)	(704,767)
Proceeds from other financing	(3,994)	-
Net cash provided by (used in) capital financing activities	(585,831)	48,094
Cash flows from investing activities:		
Proceeds from sale/maturities of investment securities	15,544,992	24,713,976
Purchase of investment securities	(14,937,638)	(24,544,171)
Investment income, net	1,017	2,086
Cash payments on behalf of the New York Job Development Authority	(186)	(710)

(Continued)

See accompanying notes to consolidated financial statements.

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

	2012	2011
	(In thousands)	
Cash flows from investing activities, continued:		
Payments received from projects financed by corporate revenue bonds	$ 20,867	29,580
Collections on economic development loans	(34,383)	(470)
Net activity on economic development projects	1	7,482
Investment in real property and office equipment	(160,391)	34,669
Equity in Small Business Technology Investment Fund	113	-
Net cash provided by (used in) investing activities	434,392	242,442
Net increase in cash and equivalents	16,303	6,633
Cash and equivalents at beginning of year	9,125	2,492
Cash and equivalents at end of year	$ 25,428	9,125
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	21,239	(237,161)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	15,348	12,484
Minority interest	11,027	9,292
Fair market value of derivative instruments	44,771	48,181
Provision for losses (recoveries) on loans and leases receivable and investments in other assets	(1,765)	(4,070)
Changes in:		
Due from Port Authority of New York and New Jersey	18,874	6,038
Grants receivable	16,332	(16,332)
Other current assets	(2,030)	116,577
Other assets	(21,085)	(3,662)
Accounts payable and accrued expenses	(8,063)	(3,583)
Grants payable	96,366	(69,959)
Interest payable	(552)	(623)
Deferred interest income - mortgage	3,000	-
Pollution remediation liability	(5,789)	(23,183)
Net cash provided by (used in) operating activities	$ 187,673	(166,001)

See accompanying notes to consolidated financial statements.

Note 1 - Corporate Background and Activities

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

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

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

UDC is engaged in three principal activities:

(a) Economic Development

UDC's efforts in economic development projects are directed at several activities involving civic, commercial, high technology and industrial development within the State. UDC's mission is to promote a vigorous and growing economy, encourage the creation of new jobs and economic opportunities, increase revenues to the State and its municipalities, and achieve stable and diversified local economies. Through the use of loans, grants, tax credits and other forms of financial assistance ESD strives to enhance private business investment and growth to spur job creation and support prosperous communicates across the State. To assist the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance where appropriate, with certain local codes and laws. Earlier projects were financed through the issuance of non-recourse revenue bonds and mortgages (see note 13). Currently, the financial assistance is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation which are disbursed to projects.

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

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development, Continued

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary. The purpose of the subsidiary is to assist in the economic recovery and revitalization of lower Manhattan. In 2001, LMDC received a direct grant of up to $2.783 billion from the United States Department of Housing and Urban Development ("HUD") and Federal Transportation Administration. Approximately $57.0 million and $160.0 million were received and disbursed during the years ended March 31, 2012 and 2011, respectively.

Additionally in 2001, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $0.1 million and $3.2 million was received and disbursed during the years ended March 31, 2012 and 2011, respectively. As of March 31, 2012, $.07 million was returned to HUD from Grantee repayments.

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

(b) State Special Projects

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

(c) Housing Projects

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

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

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

Note 2 - Summary of Significant Accounting Policies, Continued

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

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

(b) Estimates

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

(c) Cash and Equivalents

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

(d) Investment Securities

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

The fair value of investment securities, which include United States government and Federal agency obligations and obligations of State and local governments, is generally based on quoted market prices. Commercial paper and mutual funds, including time deposits and repurchase agreements with maturities of one year or less, are reported at amortized cost. If required, collateral for these investments is held in the Corporation's name by financial institutions as custodians. Investment income also includes realized gains and losses from the disposition of investments on a specific identification basis.

(e) Loans and Leases Receivable

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

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

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

Note 2 - Summary of Significant Accounting Policies, Continued

(e) Loans and Leases Receivable, Continued

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

(f) Delinquent Interest

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

(g) Revenue Bonds

Revenue bonds consisting of many programs including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities, are issued by UDC at the direction of the State Legislature. Most revenue bonds were issued under the Personal Income Tax Resolution for State Facilities and Equipment and Economic Development and Housing or currently General Purpose. UDC expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses such as bond issuance costs, discounts and advance refunding costs. During fiscal 2012 and 2011, UDC received from the State $1.072 billion and $972.0 million, respectively.

Amounts received from the State were used to meet principal payments of $643.7 million and $563.9 million in fiscal 2012 and 2011, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2012 and 2011 UDC applied $16.7 million and $28.6 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

(h) Bond Defeasances and Refundings

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

In fiscal 2012 and 2011, UDC redeemed $30.7 million and $27.5 million, respectively, of the Corporate Purpose Senior Lien Bond Series 2001 and 1996 with funds received primarily from repayment of the Corporation's housing mortgages which secure the corporate purpose bonds.

Note 2 - Summary of Significant Accounting Policies, Continued

(h) Bond Defeasances and Refundings, Continued

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

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

(i) Real Property and Office Equipment

Real property, leasehold improvements and office equipment are recorded at cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets or the related lease terms, which range from 2 to 40 years. Planning, development and construction costs for various projects which will ultimately be owned by the Corporation are capitalized when incurred and depreciated when placed in service.

As of March 31, 2012 and 2011, construction costs incurred in the amount of approximately $159.5 million and $151.5 million, respectively were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of $34.3 million, net of $1.2 million of interest income.

(j) Revenue and Expense Classification

The Corporation distinguishes operating revenue and expenses from non-operating items in the preparation of its consolidated financial statements. Operating revenue and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. The principal operating revenues are earnings from the housing portfolios, economic development grants, hotel tax collections, State appropriations for interest on revenue bonds where the Corporation's Board of Directors approves the disbursement of the funds, and grants from Federal, State and City agencies. The Corporation's operating expenses include project and program costs, related administrative expenses, interest related to corporate purpose and revenue bonds, depreciation and pollution remediation costs. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

(k) State Appropriations

State appropriations are subject to approval by the State Legislature. UDC has no assurance that required appropriations will be made beyond the current year to meet certain debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet UDC's obligations for fiscal 2013.

Note 2 - Summary of Significant Accounting Policies, Continued

(l) Grants

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

(m) Derivative Instruments

The Corporation uses interest rate swap agreements to manage the impact of interest rates on its Service Contract Revenue Refunding 2008A bonds and its State Personal Income Tax Revenue Bonds, Series 2004A-3 bonds. Accounting standards require that an entity recognize the fair value of all derivative instruments as either assets or liabilities in the consolidated balance sheets, with appropriate offsets to either operations or net assets. UDC is fully reimbursed by the State for all expenses related to revenue bonds. The fair value of the instruments is recorded either as a receivable from or payable to the State. During the year ended March 31, 2011, the Corporation implemented GASB Statement No. 53 - "Accounting and Financial Reporting for Derivative Investments" which addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments, and requires governments to test the effectiveness of derivative investments, and record derivative investments at fair value.

(n) Pollution Remediation Costs

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

(o) Subsequent Events

The Corporation has evaluated events after March 31, 2012, and through June 8, 2012, which is the date the consolidated financial statements were available to be issued, and determined that any events or transactions occurring during this period that would require recognition or disclosure are properly addressed in these consolidated financial statements.

Note 3 - Cash and Equivalents

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

Note 4 - Fair Value of Financial Instruments

Financial Instruments

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

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

Investment securities cost and fair value at March 31, 2012 and 2011 consisted of the following (in thousands):

Note 4 - Fair Value of Financial Instruments, Continued

	2012		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,067,310	2,060,340	(6,970)
Restricted cash	310,854	310,854	-
Total	$ 2,378,164	2,371,194	(6,970)

	2011		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,863,118	2,856,550	(6,568)
Restricted cash	121,998	121,998	-
Total	$ 2,985,116	2,978,548	(6,568)

Fair Value Measurements

The Financial Accounting Standards Board established a framework that provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). Level 1 are assets and liabilities whose inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Corporation has the ability to access. The Corporation holds U.S. Government and Federal Agency obligations with a quoted price in active markets for identical assets (level 1) of $2.1 million and $2.9 million at March 31, 2012 and 2011, respectively.

Note 4 - Fair Value of Financial Instruments, Continued

Investment securities were reported at fair value in the consolidated balance sheets at March 31, 2012 and 2011 as follows (in thousands):

		2012	2011
Current Investments:			
Temporary investments	$	155,691	147,979
Cash and investment securities restricted or designated for:			
Corporate purpose bonds		46,758	32,888
Revenue bonds		835,694	1,416,712
Economic development		297,599	191,776
Subsidiary and other purposes		824,401	921,188
		2,004,452	2,562,564
Long-Term Investments - investment securities restricted or designated for:			
Corporate purpose bonds		167,984	224,853
Revenue bonds		43,067	43,152
		211,051	268,005
Total investment securities	$	2,371,194	2,978,548

Restricted or designated investment securities held by UDC include cash and equivalents and investment securities amounting to $824.4 million and $921.2 million at March 31, 2012 and 2011, respectively. These amounts at March 31, 2012 and 2011 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

Note 4 - Fair Value of Financial Instruments, Continued

	2012	2011
Subsidiary/Programs/Purposes:		
42nd Street Development Project Corporation	$ 126,711	191,679
New York Empowerment Zone Corporation	20,562	21,442
Queens West Development Corporation	15,021	17,521
Harlem Community Development Corporation	4,812	5,199
Enterprise Community	883	1,015
USA Niagara Development Corporation	10,538	12,473
Lower Manhattan Development Corporation	2,942	3,129
Lower Manhattan Development Corporation 130 Liberty Escrow	10,414	16,352
New York Convention Center Development Corporation	426,635	509,188
Moynihan Station (James A. Farley Post Office Building)	22,519	27,445
ESD One Bryant Park	7,492	13,072
ESD 125 Maiden Lane	58,039	58,040
ESD Project Repair Program	13,372	6,917
ESD Buffalo Inner Harbor Development Corporation	-	2,385
ESD Erie Canal Harbor Development Corporation	19,897	7,136
Housing and Economic Development Loan Escrow	-	3,337
ESD New York	3,065	3,065
UDC Housing Resyndication and Project Improvement	1,932	1,991
ESD OPEB Liability Account	19,513	15,405
ESD Brooklyn Arena Project	2,130	782
ESD Dorado Warburton Housing Rehabilitation, Charlotte Lake Rehabilitation and Broadway E. Rehabilitation	517	417
Columbia University Manhattan Campus	2,090	471
NYSUDC Housing Disbursement	2,898	2,326
ESD Columbia SAC	51,221	-
Empire State New Market Corp	858	-
Other purposes	340	401
Total	$ 824,401	921,188

Note 5 - Loans and Leases Receivable

Residential mortgage loans, nonresidential lease receivables, mortgage loans and real estate investments and economic development loans at March 31, 2012 and 2011 consist of the following (in thousands):

	2012		2011	
	Number	Balance	Number	Balance
Residential mortgage loans (a):				
HUD subsidized (Section 236)	45	$ 184,417	47	205,698
Non-subsidized projects	5	45,299	5	47,105
Retention Loan (Section 32 Advance)	5	14,185	5	16,250
Tenant Repair Loan	11	16,485	9	8,129
	66	260,386	66	277,182
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (b)	7	27,371	7	30,372
Commercial leases (c)	4	10,877	4	11,947
Real estate investments (d)	4	1,203	4	1,203
	15	39,451	15	43,522
Economic development loans (e)	106	94,203	101	85,603
Total	187	394,040	182	406,307
Less current portion		(24,396)		(16,875)
Non-current portion		$ 369,644		389,432

(a) Residential Mortgage Loans

Residential mortgage loans are secured by first liens on the properties and are usually payable in equal installments (principal and interest) over an original 40-year term. Remaining terms range from 2 to 21 years. The loans are without recourse against the borrower and the stated interest rate is between 7.5% and 8.5%. New York State Home and Community Renewal ("HCR") has supervisory jurisdiction over UDC's residential projects.

At March 31, 2012, 50 residential projects (subsidized and non-subsidized), remain from the original total of 113. Of the 50, 45 are subsidized by HUD under contracts pursuant to Section 236 of the National Housing Act which provides interest reduction subsidy payments in connection with mortgages. Interest reduction contracts provide 60% to 65% of the mortgage debt service and effectively reduce the mortgagors' responsibility to the payment of principal plus interest at 1%. HUD payments for the 45 and 47 Section 236 projects totaled $29.1

Note 5 - Loans and Leases Receivable, Continued

million and $30.7 million for the years ended March 31, 2012 and 2011, respectively. The other projects are not subsidized under the Section 236 program and pay principal plus interest at rates of 7.5% to 8.5%.

Certain projects have required and are expected to require advances from UDC because of the failure of certain mortgagors to take such actions deemed by UDC to be necessary or appropriate to protect the mortgaged property. Such advances, amounting to $1.1 million and $2.6 million for the years ended March 31, 2012 and 2011, respectively, were expensed for financial reporting purposes, but have been added to the existing mortgage receivable balances for credit management purposes. In addition, there were no retention loan advances for the year ended March 31, 2012 and $7.1 million for the year ended March 31, 2011.

The Tenant Repair and Improvement Loan Program was established to provide low cost loans to owners of eligible properties to eliminate health and safety issues, enhance living conditions and improve the fiscal health of the Mitchell-Lama housing projects in ESD's loan portfolio. A requirement of the program is that all approved repair and construction be completed within six months of the start of construction. There were loan advances in the amount of $8.3 million and $8.1 million for the years ended March 31, 2012 and 2011, respectively.

(b) Non-residential Lease Receivables

Non-residential lease receivables consist of 7 projects outstanding in both 2012 and 2011 which were owned by UDC and leased to others. UDC recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2012, the remaining lease terms ranged from 1 to 11 years. There are 6 leases with the City of New York ($25.8 million) and 1 is with a bank ($1.5 million). At March 31, 2012, minimum lease payments to be received for each of the next 5 fiscal years aggregate $5.8 million per year.

(c) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments due to the Corporation pursuant to ground leases on 4 Roosevelt Island housing projects totaling 2,141 units which include 2 non-subsidized, 1 subsidized, and 1 cooperative. Although the UDC mortgages on the subsidized and cooperative housing projects totaling 1,380 units have been satisfied, these payments continue to be due and owing to the Corporation. The various ground lease terms range from 1 to 18 years. The receivable balance of $10.9 million is amortized at an average annual interest rate of 7.5%.

Note 5 - Loans and Leases Receivable, Continued

(d) Real Estate Investments

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

(e) Economic Development Loans

Economic development loans consist of secured, low interest loans made to companies in the State to retain and create jobs. The terms range from 1 to 22 years. The funds to make the loans came from State appropriations which are not repayable. The loans are net of allowance for possible losses of approximately $50.0 million and $60.0 million at March 31, 2012 and 2011, respectively.

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

UDC expects to receive $395.0 million over 15.5 years from the Port Authority of New York and New Jersey ("Port Authority"). The revenue stream was assigned to UDC in fiscal 2005 by the State of New York. The net present value of the future cash flows in the amount of approximately $280.0 million was recorded in the consolidated financial statements in fiscal 2005 as a receivable from the Port Authority and revenue (included with State appropriation for programs). At March 31, 2012, annual minimum payments to be received in each of the next five years is approximately $25.7 million per year. The net present value of the receivable balance at March 31, 2012 and 2011 amounted to $203.3 million and $218.2 million, respectively.

Pursuant to an October 19, 2010 agreement between Moynihan Station Development Corporation ("MSDC") and the Port Authority, MSDC is to receive up to $10.0 million from the Port Authority to extend the West End Concourse at New York Penn Station. In fiscal 2012, the Port Authority made no payments to MSDC and in fiscal 2011, $3.7 million was received. The receivable balance at March 31, 2012 and 2011 amounted to $6.3 million.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2012 and 2011 consists of the following (in thousands):

	2012			
	Balance at March 31, 2011	Additions	Disposals	Balance at March 31, 2012
Land	$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,110,178	147,415	(862)	1,256,731
Moynihan Station	51,540	12,354	-	63,894
Furniture and equipment	22,910	622	-	23,532
	1,552,321	160,391	(862)	1,711,850
Less accumulated depreciation	(296,922)	(15,348)	862	(311,408)
Totals	$ 1,255,399	145,043	-	1,400,442

	2011			
	Balance at March 31, 2010	Additions	Disposals	Balance at March 31, 2011
Land	$ 367,693	-	-	367,693
Buildings, improvements and construction in progress (incl. Farley)	1,156,690	140,147	(186,659)	1,110,178
Moynihan Station	40,203	11,337	-	51,540
Furniture and equipment	23,347	-	(437)	22,910
	1,587,933	151,484	(187,096)	1,552,321
Less accumulated depreciation	(285,381)	(12,484)	943	(296,922)
Totals	$ 1,302,552	139,000	(186,153)	1,255,399

Note 7 - Real Property and Office Equipment, Continued

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2012 and 2011 are as follows (in thousands):

	2010	increase (decrease)	2011	increase (decrease)	2012
New York Convention Center Development Corporation	$ 651,169	140,114	791,283	134,851	926,134
USA Niagara	18,868	33	18,901	(1,649)	17,252
Brooklyn Bridge Park Development Corporation	117,472	(117,472)	-	-	-
James A. Farley Post Office Building and other UDC Property	281,010	14,131	295,141	12,679	307,820
Other Subsidiaries	88,171	(83,318)	4,853	672	5,525
Total	$ 1,156,690	(46,512)	1,110,178	146,553	1,256,731

(b) James A. Farley Post Office Building

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

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

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

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

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

Note 7 - Real Property and Office Equipment, Continued

(c) Yale Building

In August 2006, the Corporation entered into an agreement to purchase the Yale Building site from New York Convention Center Operating Corporation ("CCOC"). The agreement provided that CCDC defease certain outstanding bonds of CCOC in the amount of $66.2 million, subsequently reduced to $62.4 million. In addition to the defeasance amount, CCDC has agreed to make an additional $15.0 million payment to CCOC upon the sale or lease of certain property (as defined in the Purchase and Sale Agreement). This amount is not being recorded on the financial statements since it is contingent on the sale of a parcel of land owned by CCDC. All amounts incurred in connection with this purchase will be recorded as land.

(d) Depreciation

Depreciation expense for the years ended March 31, 2012 and 2011 amounted to $15.3 million and $12.5 million, respectively.

Note 8 - Other Assets

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

	2012	2011
Interest receivable	$ 1,627	2,213
Unamortized bond finance costs	21,550	22,623
Receivable from municipalities, other authorities and others	7,506	7,398
Receivable from HUD - LMDC grant	25,066	22,511
Hotel tax receivable	9,811	9,560
Due from First Trust Trustee	10,768	10,768
Prepaid insurance	4,943	8,449
Other assets - 125 Maiden Lane	6,382	8,247
Other	110,610	69,638
	198,263	161,407
Less current portion	(43,504)	(41,474)
Non-current portion	$ 154,759	119,933

Note 9 - Postemployment Benefits Other Than Pensions

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

Note 9 - Postemployment Benefits Other Than Pensions, Continued

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

The Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they reach the normal retirement age of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees. Total expenditures charged to operations for the years ended March 31, 2012 and 2011 amounted to $4.9 million and $5.7 million, respectively, of which the Corporation paid $2.1 million and $1.5 million respectively. At March 31, 2012 and 2011, the liability for postemployment benefits other than pensions amounted to $18.2 million and $15.4 million, respectively.

The number of participants as of March 31, 2012 and 2011 was as follows:

	2012	2011
Active employees	255	273
Retired employees	190	181
Total	445	454

Funding Policy - For the years ended March 31, 2012 and 2011, the Corporation paid for postemployment health care benefits on a pay-as-you-go basis. The Corporation established a plan and began funding the liability during the fiscal year ended March 31, 2009.

Annual Other Postemployment Benefit Cost ("OPEB") - For each of the years ended March 31, 2012 and 2011, the Corporation's annual OPEB cost amounted to $4.9 million and $5.7 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2012	2011
Actuarial accrued liability ("AAL"):		
Active employees	$ 24,645	35,296
Retired employees	29,419	21,106
Total	$ 54,064	56,402

Note 9 - Postemployment Benefits Other Than Pensions, Continued

	2012	2011
Underfunded actuarial accrued liability ("UAAL")	$ 54,064	56,402
Normal cost at beginning of year	$ 2,484	3,264
Level Dollar Amortization		
Calculation of ARC under projected Unit Credit Method:		
Amortization of UAAL over 30 years with interest to end of year	$ 2,352	2,454
Normal costs with interest to end of year	2,507	3,280
Annual required contribution ("ARC")	$ 4,859	5,734
Annual OPEB Cost Contribution		
Contribution for the year	$ 2,089	1,580
Contribution as a percentage of required contribution	43.0%	27.6%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 4,859	5,734
Contribution made on a pay-as-you-go basis	(2,089)	(1,580)
Increase in net OPEB obligation	2,770	4,154
Net OPEB obligation at beginning of year	15,382	11,228
Net OPEB obligation at end of year	$ 18,152	15,382

Actuarial methods and assumptions:

Funding interest rate	4.5%
2011/2012 trend rate (medical and drugs)	9%
2012/2013 trend rate (medical and drugs)	8 %
Ultimate trend rate (medical and drugs)	5%
Year ultimate trend rate rendered	2016
Annual payroll growth rate	2.5%
Actuarial cost method	Projected Unit Credit Method
The remaining amortization period at March 31, 2012	25 years

Note 10 - Corporate Purpose Bonds

As of March 31, 2012 and 2011, UDCs outstanding corporate purpose bonds were as follows (in thousands):

	Coupon rates (%)	Balance at March 31, 2011	Principal payment	Redeemed	Balance at March 31, 2012	Maturity date	Sinking Fund Annual Installment Requirements Ranging: From year	Amount	Through year	Amount	Final amount
1996 Subordinate Lien Bonds (a):											
Term	5.50	34,780	(7,200)	-	27,580	2017	2013	3,850	2017	2,235	2,235
Term	5.50	24,895	-	-	24,895	2023	2017	1,915	2023	1,930	1,930
Term	5.60	11,460	-	-	11,460	2027	2023	1,855	2027	300	300
		71,135	(7,200)	-	63,935						
2001 Senior Lien Bonds:											
Serial	4.20 - 4.80	15,915	(2,790)	(13,125)	-						
Term	5.125	11,640	-	(11,640)	-						
Term	5.20	5,980	-	(5,980)	-						
		33,535	(2,790)	(30,745)	-						
2004A Subordinate Lien Bonds (b):											
Serial	3.625 - 5.00	15,245	(4,120)	-	11,125	2012-2015					
Term (c)	5.125	42,800	-	-	42,800	2022	2015	2,375	2022	6,685	3,385
		58,045	(4,120)	-	53,925						
Principal outstanding		162,715	(14,110)	(30,745)	117,860						
Unamortized bond discount		218			191						
Unamortized loss on current refundings		(1,902)			(1,767)						
Total		161,031			116,284						
Less current portion		(14,110)			(11,900)						
Total non-current liabilities		$ 146,921			104,384						

(a) Early redemption options at 100%.
(b) Early redemption options may commence in 2014 at 100%.
(c) Range shown represents 8 term bonds with 8 maturity dates.

Note 10 - Corporate Purpose Bonds, Continued

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

The 2001 refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3.2 million. This difference, reported in the accompanying consolidated financial statements as a deduction from bonds payable, is being charged to operations through the year 2025. The Corporation completed the refunding to reduce its total debt service payments over the next 25 years by approximately $27.0 million and to obtain an economic gain of approximately $7.7 million.

The Corporation issued 2004A Subordinate Lien Corporate Purpose Bonds in the amount of $81.5 million in April 2004. The bonds were issued to fund economic development projects or programs of the Corporation. These bonds are supported with new cash flows from the Port Authority of New York and New Jersey assigned by the State of New York to the Corporation (see note 6). The net present value of the assigned payments amounted to approximately $203.3 million and $218.2 million at March 31, 2012 and 2011, respectively.

In fiscal 2012, UDC redeemed $30.7 million of Corporate Purpose Senior Lien Bonds Series 2001 with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

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

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

Annual principal maturities and interest obligations for the next five years following March 31, 2012 are as follows (in thousands):

	Principal	Interest	Total
2013	$ 11,900	6,069	17,969
2014	11,555	5,458	17,013
2015	10,875	4,871	15,746
2016	9,450	4,326	13,776
2017	9,345	3,826	13,171
	$ 53,125	24,550	77,675

Aggregate principal maturities subsequent to 2017 are approximately $64.7 million.

Note 11 - Revenue Bonds

At March 31, 2012 and 2011, UDC's outstanding revenue bonds were as follows (in thousands):

	Balances		Coupon	Maturity
(a) Correctional Facilities	2012	2011	rates (%)	dates
Correctional Facilities Revenue Bonds				
1988 Series F	$ 4,529	8,897	zero coupon	2013
1993A Refunding	25,485	44,505	5.50	2014
1998 Refunding	-	410	5.00 - 5.10	2012
Correctional Facilities Service Contract				
2000 - Series D	-	5,765	5.00 - 5.25	2012
Correctional Capital Facilities				
1993A Capital Refunding	39,130	57,245	5.25	2014
1998 Refunding	-	775	5.00	2012
Total Correctional Facilities Issues	69,144	117,597		
(b) Youth Facilities Service Contract				
2000 Series B	-	500	5.50 - 5.60	2012
(c) Personal Income Tax Revenue Bonds (P.I.T.) State Facilities and Equipment				
2002 Series A	9,275	14,245	4.00 - 5.38	2016
2002 Series C-1	33,960	43,785	4.25 - 5.50	2019
2002 Series C-2 (Taxable)	970	1,890	5.15	2013
2003 Series B	22,070	28,725	5.00 - 5.25	2015
2004 Series A-1	237,560	237,560	3.63 - 5.25	2034
2004 Series A-2	300,485	300,485	3.63 - 5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2005 Series B	183,255	188,430	3.80 - 5.00	2035
2007 Series B	247,155	258,605	4.00 - 5.00	2037
2007 Series C	251,080	259,710	4.00 - 5.00	2037
2009 Series B-1	419,025	435,320	3.00 - 5.25	2038
2009 Series B-2	77,580	88,135	5.24 - 6.45	2018

(Continued)

Note 11 - Revenue Bonds, Continued

(c) Personal Income Tax Revenue Bonds (P.I.T.) State Facilities and Equipment	Balances 2012	2011	Coupon rates (%)	Maturity dates
Economic Development and Housing				
2003 Series A-1	$ 10,220	15,015	4.00 - 5.00	2014
2003 Series A-2 (Taxable)	30,940	45,385	4.75 - 4.85	2014
2003 Series C-1	23,640	25,295	4.00 - 5.00	2023
2003 Series C-2 (Taxable)	19,850	38,800	4.97	2013
2004 Series B-1	4,240	4,240	5.00	2015
2004 Series B-2	2,760	3,620	3.25 - 5.00	2015
2004 Series B-3 (Taxable)	8,445	30,690	4.51	2013
2005 Series A-1	105,110	110,425	3.38 - 5.00	2026
2005 Series A-2 (Taxable)	31,560	38,610	4.58 - 4.73	2016
2007 Series A	27,510	30,485	3.63 - 5.00	2023
2008 Series A-1	384,575	406,380	3.50 - 5.00	2028
2008 Series A-2	22,195	25,380	4.14 - 4.86	2018
2009 Series A-1	281,520	302,450	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	99,615	110,830	5.64 - 6.50	2019
General Purpose				
2009 Series C	633,760	653,495	3.00 - 5.00	2023
2009 Series D (Taxable)	104,380	164,590	2.03 - 2.48	2014
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	351,950	351,950	2.00 - 5.00	2020
2010 Series B (Taxable)	237,055	328,365	1.56 - 2.63	2015
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	537,615	-	3.50 - 5.00	2041
2011 Series B (Taxable)	152,310	-	0.50 - 2.79	2021
Total Personal Income Tax Revenue Bonds	6,140,055	5,831,285		

(d) University Facilities				
Columbia University 1989 Series	32,435	35,733	zero coupon	2020
Cornell University 1989 Series	4,343	4,785	zero coupon	2020
RPI Project 1995 Series	4,025	7,840	5.50	2013
Clarkson University - Loan 1995 Series	6,480	7,110	5.50	2020
Syracuse University - Loan 1995 Series	11,310	13,235	5.50	2017
University Facilities Grants 1995 Series	11,405	12,470	5.50 - 5.88	2021
Total University Facilities Issues	69,998	81,173		

(Continued)

Note 11 - Revenue Bonds, Continued

	Balances		Coupon	Maturity
(e) State Office Facilities	2012	2011	rates (%)	dates
State Office Facilities 1995 Refunding Series	$ 142,145	154,005	5.60 - 5.75	2021
(f) Other Projects				
Community Enhancement Facilities - Assistance Program 1998 Series	6,574	6,337	zero coupon	2014
(g) Service Contract Refunding				
2005 Series A	164,145	211,185	3.50 - 5.00	2019
2005 Series B	26,240	28,875	4.00 - 5.00	2020
2007 Series A	254,650	257,065	4.00 - 5.25	2029
2008 Series A	200,000	200,000	Variable note	2030
2008 Series B	442,055	444,560	3.25 - 5.25	2030
2008 Series C	121,235	121,235	3.75 - 5.00	2030
2008 Series D	644,095	672,100	4.00 - 5.63	2028
2010 Series A	458,450	484,700	3.00 - 5.00	2022
2010 Series B	391,595	467,335	4.00 - 5.00	2017
2011 Series A	12,350	-	2.00 - 4.00	2021
Total Service Contract Refunding	2,714,815	2,887,055		
Total all issues	9,142,731	9,077,952		
Less current portion	(686,470)	(639,529)		
Total non-current revenue bonds	$ 8,456,261	8,438,423		

A summary of changes in outstanding revenue bonds at March 31, 2012 and 2011 is as follows:

	2011	Increases	Decreases	2012
Correctional Facilities	$ 117,597	286	(48,739)	69,144
Youth Facilities	500	-	(500)	-
Personal Income Tax Revenue Bonds	5,831,285	702,395	(393,625)	6,140,055
University Facilities	81,173	1,511	(12,686)	69,998
State Office Facilities	154,005	-	(11,860)	142,145
Other Projects	6,337	237	-	6,574
Service Contract Refunding	2,887,055	12,350	(184,590)	2,714,815
Total	$ 9,077,952	716,779	(652,000)	9,142,731

Note 11 - Revenue Bonds, Continued

Revenue bonds issued by UDC on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to UDC to make payments for debt service (principal and interest) on the bonds and related expenses. Therefore, the financing of all revenue bonds is not expected to result in any net revenue or expense to UDC, since any debt service not covered by available assets is recovered by State appropriation. UDC assets related to these financings as of March 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Due from State of New York	$ 8,371,022	7,735,269
Debt service reserve	26,494	25,998
Cash and investments	835,694	1,416,712
Less accrued interest payable	(77,024)	(87,219)
Less other	(13,455)	(12,808)
Bonds payable	$ 9,142,731	9,077,952

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

As of March 31, 2012 and 2011, $424.9 million and $575.8 million, respectively, remained outstanding and are considered to be defeased.

Service Contract Revenue Refunding Bonds, Series 2007A

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

Note 11 - Revenue Bonds, Continued

Service Contract Revenue Refunding Bonds, Series 2008A & B

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

Service Contract Revenue Refunding Bonds, Series 2008C

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

Service Contract Revenue Refunding Bonds, Series 2008D

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

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

In June 2010, UDC issued $504.3 million Service Contract Revenue Refunding Bonds Series 2010A-1 and A-2. The proceeds were used for the purpose of (a) refunding the Subseries 2008A-2, A-3 and A-4 of the Corporation's Service Contract Refunding Bonds Series 2008A (collectively, the "Refunded Series 2008A Bonds"); (b) refunding the New York State Housing Finance Agency's

Note 11 - Revenue Bonds, Continued

("HFA") Service Contract Revenue Bonds, 2003 Series A, B, C, D, E and G Refunding (collectively, the "Refunded HFA Bonds" and, together with the Refunded Series 2008A Bonds, the "Refunded Bonds"); (c) paying a portion of the costs associated with terminating interest rate exchange agreements relating to certain of the Refunded Bonds (the "Swap Agreements"); and (d) paying the cost of issuance of the Series 2010A Bonds.

Service Contract Revenue Refunding Bond, Series 2010B

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

Service Contract Revenue Refunding Bonds, Series 2011A

In September 2011, UDC issued $12.3 million Service Contract Revenue Refunding Bonds Series 2011A. The Series 2011A Bonds were issued to provide a portion of the funds necessary to (A) finance (i) the project costs for the acquisition of the State buildings and facilities known as Hampton Plaza in Albany, New York (the "Hampton Plaza Facility") by providing funds to exercise the option to prepay and purchase the Hampton Plaza Facility contained in the Agreement of Lease Purchase dated as of March 1, 1993 between the City of Albany Industrial Development Agency and the People of the State of New York, thereby resulting in the acquisition of the Hampton Plaza Facility by the State and causing the prepayment of such agreement of lease purchase and the repayment and/or redemption of the City of Albany Industrial Development Agency Industrial Development Revenue Bonds (The Hampton Plaza Project), Series 1993A (the "1993 OGS Debt") and (ii) the project costs for the acquisition of the State buildings and facilities known as the Department of Transportation Region 1 Building at 328 State Street in Schenectady, New York (the "State Street Building") by providing funds to exercise the option to prepay and purchase the State Street Building contained in the Agreement of Lease Purchase dated as of September 27, 2011 by and between Broadway & State, LLC and the People of the State of New York, thereby resulting in the acquisition of the State Street Building by the State and causing the prepayment of such agreement of lease purchase and the repayment and/or redemption of the Certificate of Lease Assignment of the State of New York, Evidencing an Undivided Interest in All Basic Lease Payments to be Paid by the State of New York, Acting Through the Commissioner of General Services of the State of New York (the "2001 OGS Debt" and together with the 1993 OGS Debt, the "OGS Debt"); and (B) pay the cost of issuance of the Series 2011A Bonds.

Note 11 - Revenue Bonds, Continued

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

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

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

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

Note 11 - Revenue Bonds, Continued

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

York State, and projects to conserve, acquire, develop or improve parklands, parks or public recreation areas, including economic development projects that will facilitate the creation or retention of jobs or increase business activity within a municipality or region of the State (collectively the "SIP Project"); (x) a subsidy of State funds toward the construction of parking facilities in connection with the development of a new Yankee Stadium pursuant to the Parking Facilities Agreement (the "New Yankee Stadium Parking Facilities Project); and (xi) a subsidy of State funds toward the construction of certain infrastructure in connection with the Atlantic Yards Land Use Improvement and Civic Project (the "Atlantic Yards Infrastructure Project") and (b) to pay the costs of issuance of the Series 2008A-1 Bonds.

The $34.0 million Series 2008A-2 Bonds were issued for the purpose of providing the Corporation with funds which were used (a) for the payment of the costs of a Project, consisting of the financing and refinancing of the costs of (i) financing the taxable portion of the New York State High Technology Development Program which assists in financing the cost of design, financing, site acquisition and preparation, demolition, construction, rehabilitation, acquisition of machinery and equipment, parking facilities, and infrastructure (collectively, the "Taxable Technology Project"), and (ii) taxable economic development projects which will facilitate the creation and retention of jobs or increase business activity within downtown Buffalo (the "Taxable Buffalo Projects"), and (b) to pay the costs of issuance of the Series 2008A-2 Bonds.

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

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

Note 11 - Revenue Bonds, Continued

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

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

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

Note 11 - Revenue Bonds, Continued

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

In January 2009, UDC issued $607.0 million State Personal Income Tax Revenue Bonds Series 2009B-1 and B-2. The $500.2 million Series 2009B-1 were issued for the purpose of providing the Corporation funds which were used (a) for the financing and reimbursement of the costs of (i) correctional facilities capital projects (collectively the "Correctional Facilities Project"); (ii) youth facilities capital projects (collectively the "Youth Facilities Project"); (iii) equipment purchases for State departments and agencies, units of the State University of New York and City University of New York and the unified court system (collectively the "Equipment Project"); (iv) State police facilities (collectively the "State Police Project"); (v) public protection facilities in the Division of Military and Naval Affairs (collectively the "Military and Naval Project"); (vi) certain capital projects for office technology facilities, debt services and leases within the State (collectively the "OFT Project"); (vii) New York Court Facilities (collectively the "Court Facilities Project"); and (viii) certain improvements to State office buildings and other facilities within the State (collectively the "State Project"); and (b) to pay the costs of issuance of the Series 2009B-1 Bonds incurred by the Corporation.

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

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

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

Note 11 - Revenue Bonds, Continued

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

infrastructure, the reimbursement of the State for money heretofore advanced by it, the provision of grants and subsidies of State funds toward the construction of certain infrastructure for economic development projects and certain housing assistance projects and programs; and (iii) certain other projects and programs supported by State funds; and (b) to pay the costs of issuance of the Series 2009 Bonds incurred by the Corporation.

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

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

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Bonds (General Purpose) Series 2011A & 2011B (Federally Taxable)

In December 2011, UDC issued $702.4 million State Personal Income Tax Revenue Bonds (General Purpose) $545.5 million Series 2011A and $156.9 million Series 2011B (Federally Taxable). The Series 2011A Bonds were issued to finance economic development project costs, grants or loans under the following projects or programs: Downstate Regional Projects, the Downstate Revitalization Fund, the Empire State Economic Development Fund, the Empire Opportunity Fund, Luther Forest infrastructure, the New York State Economic Development Program, the New York State High Technology and Development Program, the Restore New York's Communities Initiative, redevelopment of the H.H. Richardson complex in Buffalo, Upstate City-by-City initiatives, the Capital Projects Fund, and the Upstate Regional Blueprint Fund; capital projects and equipment purchases for State departments and agencies and other State entities; capital projects with respect to facilities and other property owned and operated by various agencies of the State, including: the New York State Department of Correctional Services, the New York State Office of Children and Family Services, the New York State Police, the New York State Office of Court Administration, the New York State Department of Agriculture and Markets, and the New York State Office of Homeland Security; and project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations. The Series 2011B Bonds are being issued to finance the development and/or expansion of an international computer chip research and development center, project costs, grants or loans under housing assistance projects or programs administered by certain State public benefit corporations, and economic development project costs, grants or loans under the following projects or programs: the New York State Economic Development Assistance Program, the New York State Economic Development Program, the New York State High Technology and Development Program, the Empire State Economic Development Fund, the Empire Opportunity Fund, the Capital Projects Fund, the Upstate Regional Blueprint Fund and the Downstate Revitalization Fund. Additionally, the proceeds of the Series 2011 Bonds were used to pay all or part of the cost of issuance of the Series 2011 Bonds.

Note 11 - Revenue Bonds, Continued

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2012 are as follows (in thousands):

	Principal	Interest (a)	Total
2013	$ 686,470	390,532	1,077,002
2014	670,565	366,445	1,037,010
2015	637,895	340,077	977,972
2016	608,175	314,216	922,391
2017	599,760	145,046	744,806
	$ 3,202,865	1,556,316	4,759,181

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2017 are approximately $5.940 billion.

Interest Rate Transactions

During fiscal 2012, there was no new activity related to the interest rate swap agreements.

Certain segments of the $1.0 billion interest rate swap agreements in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2011. In May 2010, $175.0 million Citibank and $45.0 million Goldman Sachs swaps were terminated. In August 2008, $125.0 million Morgan Stanley swaps were terminated. In June 2008, $250.0 million Bear Stearns and $205.0 million Goldman Sachs swaps were also terminated. As of March 31, 2012, the total amount of swap terminations related to the original 2002B Bonds was $800.0 million. The remaining $200.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

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

Note 11 - Revenue Bonds, Continued

Interest Rate Transactions, Continued

The Corporation, in fiscal 2005, entered into additional interest swap agreements in connection with its $649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and the $30.5 million State Personal Income Tax Revenue Bonds Series 2004B-2 (Economic Development and Housing). In September 2008, the swap agreement in connection with State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative Products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4 and $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. In September 2010, the remaining swaps for 2004A-2 and 2004B-2 were terminated.

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

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

Note 12 - New York Convention Center Development Corporation Revenue Bonds

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

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

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

As of March 31, 2012 and 2011, CCDC's outstanding Revenue Bonds were as follows (in thousands):

2005 Revenue Bonds	Balances 2012	Balances 2011	Remaining Coupon rates (%)	payments to
Serial (a)	$ 95,515	95,615	3.50-5.00	2045
Term	50,930	50,930	5.00	2030
Term	121,000	121,000	5.00	2035
Term	357,270	357,270	5.00	2044
Term	75,000	75,000	4.75	2045
	699,715	699,815		
Unamortized bond premium	10,113	10,679		
	$ 709,828	710,494		

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

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

Note 13 - Other Project Revenue Bonds

Other project revenue bonds have been issued and secured loans originated in connection with specific economic development projects. The balances on these bonds at March 31, 2012 and 2011 is as follows (in thousands):

	2012	2011
Non-recourse bonds bearing interest at 7.5% and 10.75% payable to lending institutions in equal monthly installments, including interest, through January 2016 (two collateralized by industrial properties and a hotel)	$ 1,210	1,473
Less current portion	(283)	(263)
Non-current portion	$ 927	1,210

At March 31, 2012, required annual principal payments on other project revenue bonds for the next four years are as follows (in thousands):

2013	$ 283
2014	305
2015	329
2016	293
	$ 1,210

Note 14 - Other Financing

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

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

Pursuant to a June 18, 2010 agreement between the Moynihan Station Development Corporation ("MSDC") and the Port Authority of New York and New Jersey ("Port Authority"), MSDC received $6.0 million from the Port Authority to advance the Moynihan Station project. Under this agreement, the Port Authority can provide up to a maximum of $6.7 million in funding and MSDC shall reimburse the Port Authority no later than April 1, 2015 from eligible monies as described more fully in the funding agreement.

Note 15 - Pollution Remediation Obligations

In the years ended March 31, 2012 and 2011, the Corporation recognized pollution remediation expense provisions (recoveries) of $(2.3) million and $0.4 million, respectively, and the corresponding liability was adjusted in the balance sheets. The expense provision (recovery) was measured at its current value utilizing the prescribed expected cash flow method.

As of March 31, 2012 and 2011, the pollution remediation liability totaled $22.4 million and $28.2 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, removal of other hazardous materials and soil contamination.

Note 16 - Other Liabilities

Other liabilities at March 31, 2012 and 2011 consist of the following (in thousands):

	2011	Increases	Decreases	2012
Advances from Port Authority Regional Economic Development Fund - revolving loan program	$ 83,018	33,349	-	116,367
Restricted funds for grants, economic development programs and special projects/bonds	73,904	-	(10,447)	63,457
Deferred gain on sale leaseback (a)	29,623	-	(12,647)	16,976
Other loan and revolving loan programs - advances from State	2,147	-	(14)	2,133
Postemployment benefits other than pensions	15,382	2,771	-	18,153
Other accruals	111,910	56,838	-	168,748
	315,984	92,958	(23,108)	385,834
Less current portion	(75,701)			(77,181)
Non-current portion	$ 240,283			308,653

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

Note 17 - Appropriations Repayable Under Prescribed Conditions

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

The appropriations repayable under prescribed conditions originated from the recapitalization of UDC. The State advanced $162.6 million to UDC and $198.1 million to PFA. The PFA obligation was assigned to UDC creating a total amount repayable of $360.7 million. Since 1978, UDC has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2012 and 2011 amounted to $197.6 million.

Note 17 - Appropriations Repayable Under Prescribed Conditions, Continued

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

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

As of March 31, 2012, UDC may be required, if and when notified by the State, to provide JDA, through 2013, with annual amounts ranging from $10.0 million to $10.7 million, depending on anticipated annual cash flow savings from the 1996 Refunding. No payments were made to JDA in 2012 and 2011. No additional payments are anticipated during 2013.

It is also anticipated that the $26.1 million due from JDA for reimbursement to UDC for administrative expenses incurred on behalf of JDA as of March 31, 2012 ($25.9 million as of March 31, 2011), may also be credited against appropriations repayable under prescribed conditions. UDC has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by UDC on its investment portfolio. The cumulative interest earned, which covers the last seventeen fiscal years, is $7.3 million.

Note 18 - Retirement Plans

(a) Deferred Compensation and Postemployment Benefits

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

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

Note 18 - Retirement Plans, Continued

(b) State Employees' Retirement System

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

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

Participating employers are required under the NYSRSSL to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the NYSRSSL. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Systems Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, and Tier V employees who contribute 3% of their salary. The total payroll for all UDC employees for the years ended March 31, 2012 and 2011 amounted to $22.7 million and $27.1 million, respectively. UDC is billed annually for retirement contributions, which amounted to $3.4 million and $3.3 million, for the years ended March 31, 2012 and 2011, respectively.

Note 19 - Commitments and Contingencies

Commitments and contingencies at March 31, 2012 consist of the following:

(a) Legal Actions

General

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

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

In April 2012, Erie Canal Harbor Development Corporation ("EDHDC"), a subsidiary of UDC, entered into the Inner Harbor Development Phase 3A - Canal Side Public Canal Environment Contract. The total contract price, as that term is defined in the contract, is not to exceed $19,784,000. In May 2012, ECHDC received three Notices of Claim from the contractor under this contract, related to various aspects of contract scope and performance requirements. No dollar amount was specified in any of these Notices of Claim. Neither the likelihood of suit nor the amount or range of potential liability associated with these notices can be assessed at this time.

Of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including UDC. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately $20 million for the alleged negligent design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. The County asserts causes of action against UDC, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project contractors for negligence, breach of contract, negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, UDC agreed to indemnify DASNY from project-related liabilities. UDC and DASNY are being defended in this lawsuit by the Office of the State

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

of the New York State Attorney General. UDC and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. Discovery proceedings are continuing. To date, settlement discussions and mediation efforts have not been productive, except to resolve 2 of the 4 causes of action against UDC, which 2 causes of action relate to return of unspent county funds. UDC has agreed to release these funds and the County has agreed to accept. UDC expects to make motions to dismiss the remaining 2 causes of action on legal grounds. As a consequence, no assessment of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss can be made.

Atlantic Yards Project

A number of proceedings have been commenced with respect to the Atlantic Yards Land Use Improvement and Civic Project ("the Project"), located in Brooklyn, New York, including one in which UDC sought to exercise powers under Article 4 of the Eminent Domain Procedure Law. On December 23, 2009, UDC commenced such proceeding to obtain title to the Phase I condemnation properties needed for the Project. Certain respondents pleaded counterclaims alleging that the Modified General Project Plan (the "2009 MGPP") effected such significant changes to the Project as to nullify prior determinations made by UDC concerning the Project. On March 1, 2010, the Supreme Court dismissed the counterclaims and issued an Order vesting title in UDC to certain properties in the area roughly bound by Flatbush Avenue to the west, Vanderbilt Avenue to the east, Atlantic Avenue to the north, and Dean and Pacific Streets to the south. The remaining issues before the Court in this proceeding concern disputes with respect to the dollar amounts of the condemnees' just compensation awards and access to certain adjoining properties for construction purposes. A related proceeding sought a declaration that UDC did not condemn the plaintiff's entire interest in certain property within the Project site. That proceeding was dismissed; plaintiff appealed; and on appeal dismissal was affirmed. On June 6, 2011, UDC commenced an action to acquire permanent and temporary construction easements in two properties that adjoin the Project site. UDC vested title in these easements in Summer 2011.

It is important to note that UDC is required to pay all interested parties just compensation for the interests taken in accordance with all applicable legal requirements. The pre-vesting appraisals of the property interests that UDC acquired valued those interests at approximately $48 million. Claims for additional compensation have been asserted by virtually all condemnees, and the total additional compensation being sought is approximately $78 million. Approximately $46 million has been paid against these claims, including several claims that have been settled. Trials regarding compensation for four of these claims are scheduled for Summer and Fall 2012.

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

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

On March 12, 2010, the Supreme Court dismissed both proceedings. On November 9, 2010, the Supreme Court granted a motion for reconsideration and renewal, and issued an Order (the "Remand Order") remanding certain issues to UDC for further consideration. The Remand Order did not enjoin the continued construction of the Project and did not vacate the 2009 MGPP or any other Project approval or document. On December 16, 2010, UDC made additional findings as required by the Remand Order. On January 18, 2011, petitioners served supplemental petitions challenging UDC's December 16, 2010 findings and the 2009 MGPP under SEQRA and the UDCA. On July 13, 2011, the Supreme Court ruled that UDC must prepare an SEIS on the potential environmental impacts of an extended build-out of the Project's Phase II (i.e., the 11 buildings and 8 acres of open space east of 6th Avenue) and the extended use of Block 1129 as a surface parking lot, and that UDC must make additional findings with respect to Phase II. The decision did not enjoin construction, nor did it vacate the 2009 MGPP; therefore, construction of the Project's Phase I continues on site. Upon UDC's appeal of the Supreme Court decision, the Appellate Division, on April 12, 2012, affirmed the lower court decision. On May 11, 2012, UDC sought leave to appeal to the New York State Court of Appeals. Such motion is pending before the Court of Appeals. On May 10 and May 11, 2012, the two sets of petitioners in these proceedings served motions pursuant to CPLR Section 8601, as alleged "prevailing parties," seeking attorneys' fees and expenses in the amount of $310,000. The return date of these motions before the Supreme Court currently is August 6, 2012.

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

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation

Of note are exposures arising from the ownership of 130 Liberty Street, New York, New York (the "Building"), by Lower Manhattan Development Corporation ("LMDC"), a UDC subsidiary. LMDC has been served with numerous lawsuits or notices of claims for alleged personal injuries suffered in connection with a major fire at the Building on August 18, 2007, other construction accidents at the Building, and accidents at other sites and projects in Lower Manhattan, including sites under the control of other public entities. Management believes that such claims are covered by indemnity obligations of, and/or insurance policies held by, the contractors or owners directly responsible for those sites, and/or, if necessary, by LMDC's own insurance policies, subject to any applicable deductibles. All such claims are being vigorously defended by LMDC or for LMDC by the indemnifying parties. It has been reported to LMDC that several personal injury claims have been settled conditionally without contribution by LMDC. Management believes that the ultimate outcome of all of these legal actions will not have a material adverse effect on either LMDC's or UDC's financial condition.

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

On August 11, 2009, Galt, Regional Scaffolding & Hoisting Co., Inc. and Windham Construction Corp. instituted a lien foreclosure action, The John Galt Corp., et al., v. Bovis Lend Lease LMB, Inc., et al., Index No. 602568/09 (Sup. Ct. N.Y. County). On March 15, 2012 the claims of Regional Scaffolding and Windham Construction were dismissed with prejudice. LMDC continues to vigorously defend the remaining claims.

On October 23, 2009, Bovis instituted a contract action against LMDC - Bovis Lend Lease (LMB), Inc. v. Lower Manhattan Development Corp., Index No. 603243/09 (Sup. Ct., N.Y. County) - seeking a judgment in excess of $80 million against LMDC. LMDC is vigorously defending this lawsuit. LMDC also has filed, and is vigorously pursuing, its own counterclaims against Bovis seeking over $100 million in repayment of advances and damages suffered by LMDC resulting from Bovis's breach of its obligations to LMDC. LMDC filed a motion to dismiss most of Bovis' claims. In orders issued in May 2011 and April 2012, the court granted LMDC's motion in part and denied it in part. Those orders are subject to appeal. LMDC and Bovis have retained a

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

mediator and agreed to engage in a mediation process beginning in June 2012 in an attempt to resolve the dispute. A formal mediation session among the parties is scheduled for June 19-20, 2012. Management believes that LMDC has strong defenses to Bovis's claims, and strong arguments in support of the position that it should recover on its counterclaims an amount in excess of any liability to Bovis, but cannot predict the outcome of this litigation.

In May 2012 Eddington Security, Inc., a subcontractor providing security services for the 130 Liberty Street project, served on LMDC a lawsuit against LMDC, Bovis, and various insurance companies seeking approximately $3 million in payments allegedly owed as a result of services provided at the Building. LMDC has not yet answered or responded to this compliant, and believes that the amounts sought by Eddington will be among the matters in dispute at the mediation between LMDC and Bovis (the prime contractor for whom Eddington worked).

From time to time in the ordinary course of LMDC's business, various actions or notices are asserted alleging LMDC liability for a variety of matters in Lower Manhattan. LMDC defends against these claims (to the extent asserted in litigation) either through private outside counsel, the New York State Attorney General's Office, or third parties with indemnification obligations. Management believes that no such matters pending on March 31, 2012 or June 8, 2012 will have a material adverse impact on LMDC's or UDC's financial condition.

LMDC understands that Bovis is one of the subjects of ongoing construction fraud investigations by law enforcement entities and, recently, as a result of an investigation into fraudulent billing at New York construction sites, entered into a deferred prosecution agreement with the United States Attorney's Office for the Eastern District of New York requiring it to make restitution to the defrauded parties, including LMDC. LMDC management does not expect these investigations to have a material adverse impact on LMDC's or UDC's financial condition.

(b) Letters of Credit and Credit Guarantees

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

(c) Construction

The Corporation has contracts in place for construction at several sites, which are in varying states of completion. The total value of contracts outstanding at March 31, 2012 is approximately $ 335.4 million.

Note 20 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 57 - "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans," amends GASB Statement No. 45 "Accounting and Financial Reporting by Employers for

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

Postemployment Benefits Other than Pensions," to allow agent employers that have individual employer OPEB plans, with less than 100 plan members to use the alternate measurement method, regardless of the total number of plan members in the multiple-employer OPEB plan in which it participates. The requirements of this statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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

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

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

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

GASB Statement No. 63 - "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position" provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows and inflows are the consumption and acquisition of net assets by a governmental entity that is applicable to a future reporting period. This statement amends the net asset reporting requirements in Statement No. 34 - "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for periods beginning after December 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 64 - "Derivative Instruments: Application of Hedge Accounting Termination Provisions - an Amendment of GASB Statement No. 53" clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The requirements of this Statement are effective for periods beginning after June 15, 2011, which is the fiscal year beginning April 1, 2012 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 66 - "Technical Corrections - 2012 - an Amendment of GASB Statements No. 10 and No. 62" improves accounting and financial reporting for a governmental entity by resolving conflicting guidance that resulted from the issuance of two pronouncements. Statements No. 54 - "Fund Balance Reporting and Governmental Fund Type Definitions" and No. 62 - "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and

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

AICPA Pronouncements." This statement amends Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. The requirements of this statement are effective for periods beginning after December 15, 2012, which is the fiscal year beginning April 1, 2013 for the Corporation. This statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

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

The Board of Directors
New York State Urban Development
Corporation:

We have audited the consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of and for the year ended March 31, 2012, and have issued our report thereon dated June 8, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Corporation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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

Toski & Co., CPAs, P.C.

Williamsville, New York
June 8, 2012

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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
New York State Urban Development
Corporation:

We have examined the New York State Urban Development Corporation and Subsidiaries' (the "Corporation") a component unit of the State of New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York during the year ended March 31, 2012. Management is responsible for the Corporation's compliance with those requirements. Our responsibility is to express an opinion on the Corporation's compliance based on our examination.

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

In our opinion, the Corporation complied, in all material respects, with the aforementioned requirements during the year ended March 31, 2012.

In accordance with Government Auditing Standards, we are required to report findings of deficiencies in internal control, violations of provisions of contracts or grants, and abuse that are material to the Corporation's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York and any fraud and illegal acts that are more than inconsequential that come to our attention during our examination. We are also required to obtain the views of management on those matters. We performed our examination to express an opinion on whether the Corporation complied with the aforementioned requirements and not for the purpose of expressing an opinion on internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

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

Toski & Co., CPAs, P.C.

Williamsville, New York
June 8, 2012