NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2019 and 2018

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
New York State Urban Development
Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of and for the years ended March 31, 2019 and 2018, and the related notes to consolidated financial statements, which collectively comprise the Corporation's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York State Urban Development Corporation and Subsidiaries, as of March 31, 2019 and 2018, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed in notes 9 and 20 to the financial statements, the Corporation adopted the provisions of governmental Accounting Standards Board (GASB) Statement No. 75 - “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,” during the year ended March 31, 2019. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 18, the Schedule of Changes in the Corporation’s Total OPEB Liability and Related Ratios on page 65, the Schedule of Corporation’s Proportionate Share of the Net Pension Liability on page 66, and the Schedule of Corporation’s Employer Pension Contributions on page 67 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 13, 2019, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 13, 2019

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, 2019. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

Economic Development Programs and Initiatives

ESD continued its efforts to foster economic development throughout New York State during fiscal 2019. Its mission is to promote a vigorous and growing State economy, encourage business investment and job creation, and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing and other forms of assistance. To support the Corporation in carrying out its economic development mission, ESD invests strategically in infrastructure, innovation, place-making and revitalization, tradable sectors and workforce development; is transparent and responsive to the needs of diverse communities across the State through the active participation of ten Regional Economic Development Councils ("REDC" or "Regional Council"); supports the retention and health of existing businesses, the retention of populations, and the development of new businesses and industries that will contribute to the development of the 21st century economy; promotes equality of economic opportunities for minority-and women-owned businesses ("MWBEs"); provides early-stage support for new ventures, including the research and development of new technologies; and strengthens New York State's innovation-based economy through partnerships with acclaimed universities, promoting entrepreneurialism through the development of incubators and next-generation manufacturing and technology hubs across the State. In addition, 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 REDC initiative was established in 2011, supported, in part, by funding via the Regional Council Capital Fund as part of the State's fiscal year budget. Since 2011, the Regional Council Capital Fund, which is administered by ESD, has made available over $1.18 billion of capital grant funding for the State's REDC initiative, which continues to help drive regional and local economic development across New York State in cooperation with ten Regional Councils. Regional Council Capital Funds are allocated among

Economic Development Programs and Initiatives, Continued

the State's ten regions, each represented by a Regional Council, through a competitive process that includes each Regional Council's development and implementation of a five-year regional strategic plan that sets out a comprehensive vision for economic development and specific strategies to implement that vision. ESD's role in the State's REDC initiative is to administer the Regional Council Capital Fund and other annual funding that is awarded through a competitive Consolidated Funding Application review process.

During fiscal 2019, the ESD Directors and Chief Executive Officer ("CEO") approved financial assistance for over 410 companies and organizations through the REDC initiative and other programs. These programs include the Buffalo Regional Innovation Cluster, the New York Works Program, the Empire State Economic Development Fund, the Market NY Program, the Upstate Revitalization Initiative, the New NY Broadband Program and the Restore NY Communities Initiative, which promote the economic development and health of New York State by facilitating the creation and/or retention of jobs or increased economic activity. During this period, the $1.69 billion ESD investment is expected to leverage an additional $5.1 billion in total investment, resulting in the retention and creation of over 28,000 jobs.

The Buffalo Regional Innovation Cluster, known as the Buffalo Billion, was established in fiscal 2013 to attract private sector investment and promote the creation of sustainable jobs in Western New York ("WNY"). The Buffalo Billion Program is focused on three sector strategies (advanced manufacturing, health and life sciences and tourism) and three core strategies (entrepreneurship, workforce and smart growth). Projects were developed to be catalytic and transformative, leveraging the region's assets and moving the needle for WNY. In fiscal 2018, an additional $400 million was funded in the State budget to launch a second phase which builds on the success of initiatives that have already made dramatic improvements to the region's quality of life, creating new economic opportunities for all Western New Yorkers. Phase II investments are implementing revitalization and smart growth efforts, improving workforce development and job training, growing advanced manufacturing, tourism and life sciences, and connecting communities and economic progress through rail expansion. Among the current projects are the East Side Corridor Economic Development Fund; Buffalo Blueway; Western New York Welcome Center; Buffalo Manufacturing Works; Northland Workforce Training Center and Northland Corridor Redevelopment; Outer Harbor Access and Activation; 43North; Niagara Falls Strategic Land Acquisition Program; Workforce Development Challenge; Smart Growth Community Fund; and Better Buffalo Fund.

Economic Development Programs and Initiatives, Continued

During fiscal 2019, the New NY $500 million Broadband Program (the "Program") focused on implementation of its statewide portfolio of broadband deployment projects. Across its three funding rounds to date, the Program has supported over 120 individual projects, with 34 different partner broadband providers. These projects address over 250,000 unserved and underserved locations across the State, and leverage a total of $728 million in public/private funding. Over 90 percent of the Program's funding was awarded to projects that address unserved areas of the State, connecting these communities for the first time. Between projects supported by the Program and additional State-secured broadband commitments, New York State will have secured a $1 billion public/private investment that will ensure 99.9 percent of New Yorkers have access to broadband - with 99 percent at download speeds of 100 Megabits per second (Mbps) or greater, and the remainder at speeds of 25 Mbps. Certain projects will also leverage additional support from the federal Connect America Fund.

Over the past eight years, New York State has helped small businesses secure over $1.3 billion in loan capital, and provided mentorship, training, and technical assistance to tens of thousands of firms, resulting in the launch of over 10,000 new small businesses. Much of that activity is conducted through programs administered by ESD. ESD continued to successfully support small business providing over $38.3 million in loans through the Small Business Revolving Loan Fund; issuing over $27 million in loans through the Capital Access Program; providing nearly $66 million in loans through the Linked Deposit Program; issuing over $13.7 million in credits through the Surety Bond Assistance Program; and providing over $5.3 million in loans through the Bridge to Success Loan Program. In addition to the successful loan programs, ESD continued to assist entrepreneurs through the Entrepreneurship Assistance Centers Program, which gives vital courses and classes in how to start and run a business. ESD also continued Business Mentor NY, the State's first one-on-one pro bono mentoring program geared to help small businesses overcome challenges and spur growth. Over 8,100 mentors and entrepreneurs have enrolled and over 3,900 engagements have been initiated since the program's inception.

ESD also continued to manage the $100 million NYS Innovation Venture Capital Fund ("NYSIVCF" or the "Fund"). This Fund invests in eligible seed and early stage small businesses located, or agree to be located, in New York State that (i) have the potential to generate additional economic activity in the State and (ii) are working in emerging technology fields or have the potential to achieve technological advances, innovation, transformation or development. NYSIVCF also provides funding for the Technology Commercialization Program, an $8 million fund-of-funds investment program which supports pre-seed investment opportunities throughout the State. During fiscal 2019, the Fund made 11 direct equity investments totaling $8.58 million and invested an additional $1.92 million in 21 companies as part of the Technology Commercialization Program. ESD also administers the MWBE Investment Fund, having previously selected an investment manager to make equity investments in minority and women-owned business enterprises.

Economic Development Programs and Initiatives, Continued

In addition to the programs above, ESD continues to administer and manage a robust marketing program to help drive the State economy. The program has multiple components, broadly focused in two areas: (1) increasing the State's tourism through consumer and trade programs that heighten the visibility of New York's world class tourism attractions as ideal vacation destinations; and (2) attracting companies looking to expand, move or begin their operations in New York. Marketing activities include the development and placement of broadcast, print and out of home advertising, digital marketing, including both social media and paid search, experiential marketing and a presence at select trade shows and events. Marketing effectiveness research and media analytics are conducted on a monthly basis to ensure ESD is reaching its goals in website visits, perceptual changes and, ultimately, job creation and economic impact.

Economic Development Tax Incentives

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

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

Subsidiaries and Economic Development Projects

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

Moynihan Station Development Corporation

As part of the mission of Moynihan Station Development Corporation ("MSDC"), ESD purchased the James A. Farley Post Office ("Farley") building in fiscal 2007 to redevelop the Moynihan Station. The acquisition was financed with (1) $130 million from the U.S. Postal Service; (2) $105 million from ESD; (3) $30 million from the Port Authority of New York and New Jersey (the "Port Authority"); and (4) a $75 million loan from Citibank that was repaid in full on May 1, 2017.

During fiscal 2019, MSDC completed significant construction required for the planned relocation of Amtrak intercity rail operations from existing Pennsylvania Station into the redeveloped Farley Building. The project is advancing in two distinct phases. Phase 1 included a new commuter concourse underneath the Farley Building grand staircase in June 2017. The public response to the new facility has been overwhelmingly positive. Phase 2 is the redevelopment of the historic landmarked Farley Building to accommodate relocated Amtrak operations and expanded Long Island Rail Road ("LIRR") passenger amenities within a new Moynihan Train Hall surrounded by more than 1 million square feet of retail and commercial office space.

In January 2016 ESD initiated a solicitation process for a Master Developer-Builder Team for Phase 2. Multiple submissions were received for this solicitation for development of the Penn Station Complex and were subject to an extensive process of competitive review that resulted in the selection of the joint venture composed of The Related Companies, Vornado Realty Trust and Skanska USA. The New York State Public Authorities Control Board ("PACB") approved the Moynihan Station Development plan in April 2017. Final negotiations between ESD and the joint venture resulted in the execution of a 99-year Master Lease and a Development Agreement in June 2017. In a parallel effort, agreements defining the terms of occupancy and operations of Phase 1 and Phase 2 facilities by Amtrak and the LIRR, as well as the terms of continuing occupancy and operations of the United States Postal Service, were finalized. Construction on Phase 2 began in early 2017 and is targeted for substantial completion in early 2021.

Funding for Phase 2 was provided by (1) a $700 million New York State budget appropriation; (2) a $230 million up-front payment made by the Moynihan Interim Tenant LLC c/o Vornado Realty Trust pursuant to a Lease Agreement; (3) $150 million from the Port Authority; (4) $105 million from Amtrak; (5) $100 million from the Metropolitan Transit Authority; (6) $62 million in federal grants; and (7) a $526 million loan from the U.S. Department of Transportation, that closed in July 2017. The loan balance will be repaid using Payments-in-lieu-of-Taxes paid by the Master Developer to ESD under an agreement that also includes New York City.

During fiscal 2019, structural framing for the project's signature Midblock and Train Hall Skylights began, delivery of transformers was complete and energization began on four feeders, and platform escalators were delivered and installed.

New York Convention Center Development Corporation

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESD in 2005 and NYCCDC issued $700.0 million in revenue bonds to fund the expansion and renovation of the Jacob K. Javits Convention Center (the "Javits Center"). The bonds were secured by a hotel unit fee, which generated $52.8 million and $50.0 million for the fiscal years ended March 31, 2019 and 2018, respectively. The $735.2 million construction related to the original expansion and renovation of the Javits Center was completed in 2014.

Although these improvements enhanced the existing facilities, the operations and the ability to compete in the evolving convention center marketplace were challenged by a lack of meeting room space and truck parking. An additional expansion of the Javits Center was deemed necessary to address these challenges so that the facility could meet industry standards, host larger and more diverse events, and accommodate truck traffic generated by such events. To advance these goals, in April 2016, New York State passed legislation enabling NYCCDC to develop an expansion of the Javits Center under the design-build delivery method.

The new facilities expansion will include: a 480,000 square feet on-site truck marshaling facility, including twenty-seven (27) new loading docks; 92,000 square feet of new prime exhibit space; 98,000 square feet of new state-of-the-art meeting room and ballroom space; 113,000 square feet of pre-function space; a roof terrace accommodating 1,500 people for outdoor events; an expanded green-roof area; and LEED Silver certification. An important, but separate, component of the expansion is construction of a transformer building and the relocation of certain utilities. When concluded, the transformer building will supply utilities both to the existing and expanded Javits Center.

In fiscal 2017, as part of the funding sources of the expansion, NYCCDC issued $420.2 million in Senior and Subordinated Lien Revenue Bonds Series 2016A and Series 2016B (Hotel Unit Fee Secured) (the "Series 2016 Bonds") to (i) pay certain of the costs of expanding and renovating the Javits Center, (ii) fund the Revenue Account up to the Revenue Account Requirement, (iii) fund the Debt Service Reserve Accounts up to the Debt Service Reserve Accounts Requirements, (iv) fund a deposit to the Subordinated Lien Capitalized Interest Account and (v) pay the costs of issuance of the Series 2016 Bonds. Funding is also provided through a $1 billion New York State budget appropriation and available bond proceeds. Other sources may be provided as required.

Transformer construction has a budget of approximately $95 million and a two-year completion schedule. Expansion construction has a budget of approximately $1.3 billion and a four-year completion schedule.

During fiscal 2019, demolition, excavation, caisson foundations and foundation pressure slabs were completed; the concrete structure for the truck garage is underway; steel erection is progressing; electrical connections between the transformer building and existing Javits are nearly complete; and energization of the electrical feeders has begun. The Javits Center expansion project is scheduled to be completed in March 2021.

Harlem Community Development Corporation

The mission of Harlem Community Development Corporation ("HCDC") is to formulate and implement a comprehensive program to revitalize the Harlem community. HCDC has three primary departments: Business Services, Community Development and the Weatherization Assistance Program ("WAP"). Business services and economic development continues to be HCDC's primary focus, complementing ESD's efforts in the areas of business attraction and retention, entrepreneurial assistance, New York State MWBE Certification, marketing and promoting of tourism, arts, culture, dining and entertainment in Upper Manhattan.

HCDC continues to engage the community by providing loans, grants and technical assistance to facilitate the development, marketing and leasing of affordable housing, mixed-use facilities and community development projects. HCDC also supports various other community initiatives, programs and events, workforce development programs and initiatives, provides one-on-one U.S. Department of Housing and Urban Development (HUD) certified housing counseling services, and co-sponsors home buyer education and financial literacy workshops and seminars.

Through its WAP Program, HCDC continues to maximize the benefits available to promote the health, safety and well-being of Upper Manhattan-based low-income residents of multi-family rental and co-operative buildings. WAP is funded through the U.S. Department of Energy and overseen by New York State Homes and Community Renewal. It plays an important role in the preservation of hundreds of low-income housing units annually by improving energy efficiency and residents' quality of life.

Lower Manhattan Development Corporation

New York State designated ESD as the lead agency to provide assistance to businesses affected by the events of September 11, 2001. The U.S. 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 ESD 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 $2.8 billion to fund these efforts. As of March 31, 2019, more than $3.3 billion of the total $3.5 billion of HUD funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

Atlantic Yards/Pacific Park Brooklyn Project

ESD continues to be actively involved in the Atlantic Yards/Pacific Park Brooklyn Project, which is the redevelopment of twenty-two acres of underutilized land in downtown Brooklyn. The general project plan that was adopted in July 2006 and modified in June 2009, includes the Barclays Center, transit and infrastructure improvements, an upgraded Long Island Rail Road (LIRR) train yard, sixteen residential and commercial towers, and eight acres of open space. The residential development includes an affordable component. Four residential buildings are open with 63% as affordable units. Publicly accessible open space is available and commercial tenants are in place. At the LIRR Yards, work on the West Portal is complete and electrical substations, employee quarters and utilities have been installed. Foundational footings for the platform overbuild and the completion of the permanent rail yards are expected to be completed in summer 2019.

The ESD Board approved a 2014 Modified General Project Plan ("MGPP") that accelerates development and ensures the timely arrival of key project deliverables for the community. The Atlantic Yards Community Development Corporation continues to facilitate progress of the project, which the joint venture has rebranded the Pacific Park Brooklyn.

Erie Canal Harbor Development Corporation

Erie Canal Harbor Development Corporation ("ECHDC") has a mission to revitalize Western New York's waterfront and restore economic growth in Buffalo based on the region's legacy of pride, urban significance and natural beauty. ECHDC has made significant advancements to the waterfront development and its goal to accomplish public/private partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. During fiscal 2019 ECHDC has: (1) funded over 2,000 events and activities at Canalside bringing over 1.5 million visitors to Buffalo; (2) concluded construction of the Explore and More Children's Museum which opened in May 2019; (3) pursued the redevelopment of the Outer Harbor lands with ESD, NYS Parks and consultants; (4) utilized the Canals in the winter for skating and other events; and (5) provided events and programming on the ECHDC owned Outer Harbor land.

USA Niagara Development Corporation

As another commitment to Western New York, USA Niagara Development Corporation ("USAN") continues its mission of dedication to the support and promotion of economic development initiatives in downtown Niagara Falls by leveraging private investment through targeted public investments in start-up capital, key infrastructure improvements, and organizational assistance. The overarching principle of USAN's development strategy is simultaneously working on implementation of different types of projects with various development cycles, from smaller, short-term efforts to setting the stage for larger future projects. This approach has proven to be successful as USAN has completed or substantially completed portions of approximately 40 projects and is actively working on seven other projects in various stages of development, totaling over $528 million.

These projects range from downtown streetscape infrastructure projects to attract downtown investment to middle-range projects to reconnect downtown to its waterfront and to begin sensible development on shovel-ready downtown sites. Over the last several years, USAN participated in six new hotel projects, adding approximately 600 new rooms and renovating 189 existing rooms. Proposed future projects also include the redevelopment of the Hotel Niagara (estimate $42 million) and the Wonder Falls Resort (estimate $150 million).

During fiscal 2019, USAN acquired a portfolio of thirty-one individual properties (the "Anderson Properties") totaling approximately 10 acres of land in downtown Niagara Falls for the fair market value of $14.7 million.

Other Economic Development Projects

Other examples of ESD's economic development and redevelopment include Queens West Development Corporation ("QWDC"), Applied Materials META Center, Athenex, Semiconductor Transition Program, NFX Capital, Nano Utica, Tokyo Electron and Cold Spring Harbor Lab.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2019 and 2018:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2019	2018
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 216,751	227,788
Other current assets	2,777,976	2,233,516
Total current assets	2,994,727	2,461,304
Non-current assets:		
Investment securities - restricted	17,753	17,490
Loans and leases receivable	95,184	93,535
Due from State of New York	12,556,059	13,112,122
Due from Port Authority of New York and New Jersey	36,057	59,729
Due from New York Job Development Authority	26,914	26,552
Real property and office equipment, net	3,417,286	2,591,697
Other non-current assets	190,606	193,891
Total non-current assets	16,339,859	16,095,016
Total assets	19,334,586	18,556,320
Deferred outflows of resources	68,174	63,760
Liabilities		
Current liabilities	1,488,967	1,442,367
Non-current liabilities	13,886,645	13,972,612
Total liabilities	15,375,612	15,414,979
Deferred inflows of resources	357,717	317,225
Minority interest	337,820	210,866
Net position		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	340,928	465,512
Total restricted	538,482	663,066
Net investment in capital assets	2,793,129	2,013,944
Total net position	$ 3,331,611	2,677,010

SUMMARY OF CONSOLIDATED STATEMENTS OF REVENUE,
EXPENSES AND CHANGES IN NET POSITION

	2019	2018
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
Residential projects	$ 2,612	2,642
Nonresidential projects	9,933	19,059
Interest on revenue bonds	4,144	8,278
Hotel tax revenue	52,788	50,048
Reimbursed grants	246,813	219,500
Economic development grants	899,532	646,983
State appropriation for programs	707,489	398,290
Other revenue	96,877	326,631
Total operating revenue	2,020,188	1,671,431
Operating expenses:		
Interest related to corporate loans	-	522
Interest on revenue bonds	4,144	8,278
Interest on subsidiary project bonds	29,009	29,381
Reimbursed grants	41,792	75,675
Economic development grants	905,988	647,111
General and administrative	131,150	148,786
Subsidiary program and administrative	24,215	22,438
Pollution remediation	(845)	1,810
Provision for recoveries on loans and leases receivable and investments in other assets	2,842	6,525
Depreciation	37,330	36,838
Total operating expenses	1,175,625	977,364
Minority interest	(126,954)	(51,690)
Operating income	717,609	642,377
Non-operating revenue	637,454	612,152
Non-operating expenses	621,381	604,395
Change in net position	733,682	650,134
Net position at beginning of year, as previously stated	2,677,010	2,026,876
Cumulative effect of change in accounting principle	(79,081)	-
Net position at beginning of year, as restated	2,597,929	2,026,876
Net position at end of year	$ 3,331,611	2,677,010

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $216.8 million and $227.8 million at March 31, 2019 and 2018, respectively. The $11.0 million decrease is primarily due to reductions in the receipt of payments related to commercial leases and nonresidential projects.

Capitalization

As of March 31, 2019, ESD had $13.5 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds for economic development activities, State Facilities, housing projects and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In January 2019, ESD issued $1,543.8 million in State Personal Income Tax Revenue Bonds (General Purpose): $741.5 million Series 2019A and $802.3 million Series 2019B (Federally Taxable). The Series 2019A and 2019B (the "Series 2019 Bonds") were issued for the purpose of financing Authorized Purposes. Proceeds of the Series 2019 Bonds were used to finance or reimburse all or a portion of the costs of programs and projects throughout the State, including information technology projects, housing assistance projects and programs, economic development projects, MTA Transportation Facilities and State facilities projects. In addition, proceeds of the Series 2019 Bonds were used to pay all or part of the cost of issuance of the Series 2019 Bonds.

In December 2017, ESD issued $1,750.7 million in State Personal Income Tax Revenue Bonds (General Purpose): $733.2 million Series 2017C and $1,017.5 million Series 2017D (Federally Taxable). The Series 2017C and 2017D bonds (the "Series 2017 Bonds") were issued for the purpose of financing Authorized Purposes. Proceeds were used to (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including economic development projects, correctional and youth facilities projects, State and municipal facilities projects, housing assistance projects and programs, information technology projects, environmental infrastructure projects and high technology and development projects, and (b) refund certain State-supported debt previously issued by the Corporation. In addition, proceeds of the Series 2017 Bonds were used to pay all or part of the cost of issuance of the Series 2017 Bonds.

Interest Rate Transactions

The remaining balances of the interest rate swap agreements were $374.7 million and $387.1 million at March 31, 2019 and 2018, respectively. During fiscal 2019, the notional amount of the interest rate swap agreements in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) decreased from $163.1 million at March 31, 2018 to $150.8 million at March 31, 2019.

Under the swap agreements, the Corporation effectively converted terms of the underlying debt obligation from a variable rate 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 LIBOR rate. The maturities of the swaps are equal to the maturities of the Series 2008A Bonds and amortization began in 2017 with a final maturity in 2030. Since the Corporation is fully reimbursed by the State for all swap-related payments, no gains or losses will be recognized.

The remaining $223.9 million interest rate swap balance supports 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 LIBOR rate and pays a fixed rate to the related counterparties of 3.49%. Since the Corporation is fully reimbursed by the State for all swap-related payments, no gains or losses will be recognized.

The fair value of the swaps is recorded as deferred inflows of resources and the related deferred loss as deferred outflows of resources.

Investment Ratings

As of March 31, 2019, the Corporation's outstanding debt had ratings from among three major rating agencies. Below are some representative issues:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Facility Service Contract - Refunding 2010A	N/A	AA	AA
Personal Income Tax Revenue Bonds Series 2019A, 2019B	Aa1	N/A	AA+
NY Convention Center Development Corporation Senior Lien Revenue Bonds Series 2016A	Aa3	N/A	N/A
NY Convention Center Development Corporation Subordinated Lien Revenue Bonds Series 2016B	A2	N/A	N/A

Change in Net Position

The change in net position for the year ended March 31, 2019 was $733.7 million compared with $650.1 million in the prior year. The $83.6 million increase is primarily due to the receipt of New York State budget appropriations for the expansion of the Javits Center and the Moynihan Station Development project.

Revenue

Operating revenue in the 2019 fiscal year was approximately $2,020.2 million compared with $1,671.4 million in fiscal year 2018. The $348.8 million increase is primarily due to the following:

- State appropriation for programs increased by $309.2 million due to an increase of $462.8 in New York State budget appropriation funding for the Javits Center expansion and the Moynihan Station Development project which were offset by decreases of $150.8 million in New York State budget appropriation funding provided last fiscal year for the full mortgage loan repayment on the Farley Building and $2.8 million of convertible loan project-related income;
- Economic development grants increased by $252.6 million due to an increase in activity within existing grant programs, including the following projects: Applied Materials META Center, Athenex, Semiconductor Transition Program, NFX Capital, Nano Utica, Tokyo Electron and Cold Spring Harbor Lab;
- Reimbursed grants revenue increased by $27.3 million due primarily to the receipt of $39.2 million for reimbursement of program administration expenses and $24.7 million in reimbursement funding for the Moynihan Station Development project and QWDC, which were offset by decreases of approximately $33.9 million in HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs and $2.7 million related to USA Niagara and other projects and subsidiaries;
- Hotel tax revenue increased by $2.7 million as a result of increased tourism in New York City.

Decreases in operating revenue primarily occurred in the following categories:

- Other revenues decreased by approximately $229.8 million due to a total decrease of $233.9 million related to tenant funding for the Moynihan Station Development project; funding for the State's worldwide advertising and marketing promotion campaign; Payment in Lieu of Sales Tax contractually required during construction at Atlantic Yards; and funding related to miscellaneous revenue sources, which was offset by a $4.1 million increase related to mortgage interest income; investment activity through the New York Innovation Venture Capital Fund; and grant recapture income.
- Interest and finance income from nonresidential projects decreased by $9.1 million due primarily to a decrease in Tax Equivalency Payments related to a project on Roosevelt Island; and
- Interest on revenue bonds decreased by approximately $4.1 million mainly due to the scheduled repayment of certain bonds.

Non-operating revenue was approximately $637.5 million in fiscal 2019 compared to $612.2 million in fiscal 2018. The $25.3 million increase is due primarily to the receipt of funds related to the issuance of new State Personal Income Tax Revenue Bonds (General Purpose) Series 2019A and 2019B and an increase in investment income.

Expenses

Operating expenses in the fiscal year ended March 31, 2019 were approximately $1,175.6 million compared to $977.4 million in fiscal year 2018. The $198.2 million increase is primarily due to the following:

- Economic development grants increased by $258.9 million due to an increase in activity within existing grant programs, including the following projects: Applied Materials META Center, Athenex, Semiconductor Transition Program, NFX Capital, Nano Utica, Tokyo Electron and Cold Spring Harbor Lab;
- Subsidiary program and administrative expenses increased by approximately $1.8 million primarily due to increases in development costs for certain subsidiaries, including USAN and ECHDC, offset by decreases in payroll, fringe benefits and other expenses; and
- Depreciation increased by approximately $0.5 million due to the acquisition of capital assets.

Decreases in operating expenses primarily occurred in the following categories:

- Reimbursed grants expense decreased by $33.9 million due to lower HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs;
- General and administrative expenses decreased by approximately $17.7 million due primarily to reduced billing activity in the State's marketing and promotion program, offset by increases in payroll and fringe benefits, investment activity through the New York State Innovation Venture Capital Fund and several non-personal services expenses, including professional fees for consultants and attorneys;
- Interest on revenue bonds decreased by approximately $4.1 million mainly due to the scheduled repayment of certain bonds;
- Provision for recoveries on loans and leases receivable and investment in other assets decreased by approximately $3.7 million due primarily to a reduction in loan workouts;
- Pollution remediation expense decreased by approximately $2.7 million due to the completion of remediation work at the Javits Center at less than the previously estimated cost;
- Interest related to corporate loans decreased by $0.5 million due to the repayment of the Farley Building mortgage loan in the prior fiscal year; and
- Interest on subsidiary project bonds decreased by approximately $0.4 million due to the scheduled repayment of debt obligations.

Non-operating expenses were approximately $621.4 million in fiscal 2019 compared to $604.4 million in fiscal 2018. The $17.0 million increase is due primarily to expenses associated with the issuance of State Personal Income Tax Revenue Bonds (General Purpose) Series 2019A and Series 2019B.

Request for Information

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

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Net Position
March 31, 2019 and 2018

	2019	2018
	(In thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 65,881	84,822
Temporary investments	150,870	142,966
	216,751	227,788
Cash and investment securities restricted or designated for:		
Revenue bonds	955,329	525,646
Economic development	476,634	474,793
Subsidiary and other purposes	1,293,596	1,177,613
	2,725,559	2,178,052
Loans and leases receivable:		
Non-residential, principally leases	2,000	3,400
Economic development loans	621	952
	2,621	4,352
Due from State of New York	-	5,730
Due from Port Authority of New York and New Jersey	26,605	26,606
Other current assets	23,191	18,776
Total current assets	2,994,727	2,461,304
Investment securities restricted or designated for revenue bonds	17,753	17,490
Loans and leases receivable:		
Non-residential, principally leases	8,501	8,933
Economic development loans	86,683	84,602
	95,184	93,535
Due from State of New York	12,556,059	13,112,122
Due from Port Authority of New York and New Jersey	36,057	59,729
Due from New York Job Development Authority	26,914	26,552
Real property and office equipment, net	3,417,286	2,591,697
Other non-current assets	190,606	193,891
Total non-current assets	16,339,859	16,095,016
Total assets	19,334,586	18,556,320
Deferred outflows of resources		
Deferred loss on derivative	55,834	53,915
Deferred loss on refunding	1,126	1,195
Pensions	7,485	4,883
Contributions subsequent to measurement date	3,729	3,767
Total deferred outflows of resources	68,174	63,760

(Continued)

See accompanying notes to consolidated financial statements.

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

		2019	2018
Liabilities		(In thousands)	
Current liabilities:			
Current portion of bonds, notes and mortgages payable:			
Revenue bonds	$	1,010,410	955,850
Project revenue bonds - New York Convention Center Development Corporation		13,530	11,935
Other financing		76,324	75,117
		1,100,264	1,042,902
Accounts payable and accrued expenses		257,774	279,554
Interest payable		56,101	57,332
Other postemployment benefit obligations		2,802	2,463
Other current liabilities		72,026	60,116
Total current liabilities		1,488,967	1,442,367
Non-current liabilities:			
Bonds, notes and mortgages payable:			
Revenue bonds		12,447,069	12,632,499
Project revenue bonds - New York Convention Center Development Corporation		1,105,413	1,114,246
Other financing		-	12,663
		13,552,482	13,759,408
Repayable to related governmental entities		635	244
Pollution remediation liability		42	1,824
Net pension liability - proportionate share - ERS		2,907	8,391
Other postemployment benefit obligations		128,995	42,194
Other non-current liabilities		201,584	160,551
Total non-current liabilities		13,886,645	13,972,612
Total liabilities		15,375,612	15,414,979
Commitments and contingencies (note 18)			
Deferred inflows of resources			
Fair market value of derivatives		55,834	53,915
Grants payable		166,049	124,266
Pensions		9,308	1,494
Other postemployment benefit obligations		546	-
Other		125,980	137,550
Total deferred inflows of resources		357,717	317,225
Minority interest		337,820	210,866
Net position:			
Restricted:			
Appropriations repayable under prescribed conditions		197,554	197,554
Other restricted for specific purposes		340,928	465,512
Total restricted		538,482	663,066
Net investment in capital assets		2,793,129	2,013,944
Total net position	$	3,331,611	2,677,010

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Position
Years ended March 31, 2019 and 2018

	2019	2018
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
Residential projects	$ 2,612	2,642
Nonresidential projects	9,933	19,059
Interest on revenue bonds	4,144	8,278
Hotel tax revenue	52,788	50,048
Reimbursed grants	246,813	219,500
Economic development grants	899,532	646,983
State appropriation for programs	707,489	398,290
Other revenue	96,877	326,631
Total operating revenue	2,020,188	1,671,431
Operating expenses:		
Interest related to corporate loans	-	522
Interest on revenue bonds	4,144	8,278
Subsidiary project revenue bonds	29,009	29,381
Reimbursed grants	41,792	75,675
Economic development grants	905,988	647,111
General and administrative	131,150	148,786
Subsidiary program and administrative	24,215	22,438
Pollution remediation	(845)	1,810
Provision for payment on loans and leases receivable and investments in other assets	2,842	6,525
Depreciation	37,330	36,838
Total operating expenses	1,175,625	977,364
Minority interest	(126,954)	(51,690)
Operating income	717,609	642,377

(Continued)

See accompanying notes to consolidated financial statements.

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

	2019	2018
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 605,495	596,813
Interest and finance income earned on investment of revenue bond proceeds	15,999	7,661
Other investment income, including change in fair value	15,960	7,678
Total non-operating revenue	637,454	612,152
Non-operating expenses - interest and other costs on revenue bonds	621,381	604,395
Non-operating income	16,073	7,757
Change in net position	733,682	650,134
Net position at beginning of year, as previously stated	2,677,010	2,026,876
Cumulative effect of change in accounting principle (note 20)	(79,081)	-
Net position at beginning of year, as restated	2,597,929	2,026,876
Net position at end of year	$ 3,331,611	2,677,010

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2019 and 2018

	2019	2018
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 12,545	21,701
State appropriation received for interest on debt	4,144	8,278
Other operating receipts	96,877	326,631
Cash received from hotel tax revenue	52,617	50,571
Grants received	1,878,849	1,294,363
Interest related to corporate loans	-	(1,045)
Interest payments on revenue bonds	(33,153)	(37,659)
Payments for general and administrative expenses	(173,483)	(828)
Grant payments	(911,649)	(784,966)
Payments for pollution remediation	(937)	(5,444)
Net cash provided by operating activities	925,810	871,602
Cash flows from non-capital financing activities - increase in other liabilities	49,432	93,063
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	1,543,815	1,750,745
Retirement of revenue bonds	(1,674,685)	(1,072,109)
Accrued interest payable on revenue bonds	(1,033)	(2,351)
Bond (payments) proceeds - New York Convention Center Development Corporation, net of issuing costs	(7,367)	(11,192)
Advances on behalf of State of New York for special projects	561,793	(934,539)
Payments of other financing	1	1
Net cash provided by (used in) capital financing activities	422,524	(269,445)
Cash flows from investing activities:		
Proceeds from sales/maturities of investment securities	9,681,798	11,776,957
Purchase of investment securities	(10,237,472)	(11,716,231)
Investment income, net	16,073	7,757
Cash payments on behalf of the New York Job Development Authority	(362)	(222)

(Continued)

See accompanying notes to consolidated financial statements.

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

	2019	2018
	(In thousands)	
Cash flows from investing activities, continued:		
Payments received from projects financed by corporate revenue bonds	$ 1,832	2,893
Collections (payments) on economic development loans	(4,201)	(208)
Net activity on economic development projects	(11,456)	(141,314)
Investment in real property and office equipment	(862,919)	(623,228)
Net cash used in investing activities	(1,416,707)	(693,596)
Net increase (decrease) in cash and equivalents	(18,941)	1,624
Cash and equivalents at beginning of year	84,822	83,198
Cash and equivalents at end of year	$ 65,881	84,822
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	717,609	642,377
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	37,330	36,838
Minority interest	126,954	51,690
Provision for payment on loans and leases receivable and investments in other assets	2,842	6,525
Changes in:		
Due from Port Authority of New York and New Jersey	23,672	22,281
Other current assets	(4,415)	(11,879)
Other assets	3,285	19,218
Deferred outflow - pensions	(2,564)	6,932
Accounts payable and accrued expenses	(21,780)	177,505
Grants payable	41,783	(69,241)
Interest payable	-	(1,045)
Pollution remediation liability	(1,782)	(3,634)
Net pension liability	(5,484)	(5,492)
Deferred inflow - pensions	7,814	(473)
Deferred inflow - OPEB	546	-
Net cash provided by operating activities	$ 925,810	871,602

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, ESD has broad powers, which can be utilized for civic, industrial, commercial or residential development purposes.

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

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

ESD is engaged in various activities for the State, as highlighted below:

(a) Economic Development Programs and Initiatives

ESD is the State's primary agent for economic development and job creation with ten regional offices throughout the State, three of which, Albany, Buffalo and New York City, function as a co-headquarters. ESD's mission is to promote a vigorous and growing State economy, encourage business investment and job creation, and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing and other forms of assistance. To support the Corporation in carrying out its economic development mission, ESD invests strategically in infrastructure, innovation, place-making and revitalization, tradable sectors and workforce development; is transparent and responsive to the needs of diverse communities across the State through the active participation of ten Regional Economic Development Councils; supports the retention and health of existing businesses, the retention of populations, and the development of new businesses and industries that will contribute to the development of the 21st century economy; promotes equality of economic opportunities for minority-and women-owned businesses; provides early-stage support for new ventures, including the research and development of new technologies; and strengthens New York State's innovation-based economy through partnerships with acclaimed universities, promoting entrepreneurialism through the development of incubators and next-generation manufacturing and technology hubs across the state. In addition, the State Legislature has provided the Corporation with various statutory powers, including the power to

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development Programs and Initiatives, Continued

issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws. Financial assistance to organizations is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation which are disbursed to projects. Federal funding is also received through various programs to provide assistance to small businesses, businesses who have sustained losses as a result of natural disasters and other purposes that spur economic development.

(b) Subsidiaries and Economic Development Projects

In addition to assisting businesses, the Corporation continues to support major development and redevelopment efforts throughout the State through its many consolidated subsidiaries and its involvement in significant economic development projects including Harlem Community Development Corporation, New York Convention Center Development Corporation, Moynihan Station Development Corporation, Erie Canal Harbor Development Corporation, USA Niagara Development Corporation, New York Empowerment Zone Corporation and Atlantic Yards/ Pacific Park Brooklyn.

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary to assist in the economic recovery and revitalization of lower Manhattan following the events of September 11, 2001. LMDC received a direct grant of up to $2.783 billion from the United States Department of Housing and Urban Development ("HUD") and the Federal Transportation Administration. Approximately $43.4 million and $76.0 million was received and disbursed during the years ended March 31, 2019 and 2018, respectively.

In 2001, to further assist the efforts of LMDC, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $4.4 thousand and $1.6 million was received and disbursed during the years ended March 31, 2019 and 2018, respectively.

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

(c) Economic Development Tax Incentives

ESD administers the Excelsior Jobs Program that provides job creation and investment incentives to firms in certain targeted industries, ranging from biotechnology to manufacturing. In addition, ESD also administers the New York State Film Tax Credit Program, which is designed to increase the film production and post-production industry presence in and overall economic benefits to New York State.

Note 1 - Corporate Background and Activities, Continued

(c) Economic Development Tax Incentives, Continued

Both of these tax incentive programs abate taxes collected by the State of New York. ESD has no authority to tax and collects no taxes. Therefore, disclosure of these abatements in accordance with GASB Statement No. 77 - "Tax Abatements," occurs only within the State of New York Consolidated Annual Fiscal Report.

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

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

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

(b) Estimates

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

(c) Cash and Equivalents

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

(d) Investment Securities

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

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

Note 2 - Summary of Significant Accounting Policies, Continued

(e) Loans and Leases Receivable

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

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

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

(f) Delinquent Interest

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

(g) Revenue Bonds

Revenue bonds are issued by ESD at the direction of the State to fund many programs, including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities. Most revenue bonds are issued under the Personal Income Tax Resolution for General Purpose. ESD expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses, such as bond administrative costs, discounts and advance refunding costs. During fiscal 2019 and 2018, ESD received $1.529 billion and $1.564 billion, respectively, from the State.

Funds received from the State were used to meet principal payments of $933.0 million and $940.3 million in fiscal 2019 and 2018, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2019 and 2018 ESD used $4.4 million and $22.9 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

During fiscal 2019, at the direction of the New York State Division of the Budget, ESD received $324.8 million in advances for debt service obligations due throughout fiscal 2020 related to certain State supported debt. These funds are held with the Trustees and the investment earnings will be applied to future debt service obligations.

Note 2 - Summary of Significant Accounting Policies, Continued

(h) Bond Defeasances and Refundings

ESD accounts for bond defeasances and refundings under the provisions of GASB Statement No. 23 - "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities," as amended by GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities," and GASB Statement No. 86 - "Certain Debt Extinguishment Issues." Accordingly, gains or losses representing the difference between the reacquisition price required to repay previously issued debt, and the net carrying amount of the retired debt, are reported as a deferred outflow of resources or a deferred inflow of resources, and subsequently amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

In fiscal 2016, NYCCDC fully refunded its $700 million Revenue Bonds Series 2005 (Hotel Unit Fee Secured) with the issuance of $632.1 million Revenue Refunding Bonds Series 2015 (Hotel Unit Fee Secured). These bonds will continue to be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

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

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

(i) Real Property and Office Equipment

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

As of March 31, 2019 and 2018, construction costs incurred in the amount of approximately $860.3 million and $613.9 million, respectively, were capitalized and included as part of building and improvements.

Note 2 - Summary of Significant Accounting Policies, Continued

(j) Revenue and Expense Classification

The Corporation classifies operating revenue and expenses separately from non-operating items in the preparation of its consolidated financial statements. Operating revenue and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. The principal operating revenues are earnings from economic development grants and loans, fees collected from the issuance of bonds, hotel tax collections, State appropriations for interest on revenue bonds, and grants from federal, State and City agencies. The Corporation's operating expenses include project and program costs, administrative expenses, interest related to corporate loans and revenue bonds, depreciation and pollution remediation costs. All revenue and expenses not meeting these definitions are reported as non-operating revenue and expenses.

(k) State Appropriations

State appropriations are subject to approval by the State Legislature. ESD has no assurance that required State appropriations will be received beyond the current year to meet certain program, project and debt service obligations. State appropriations and available funds are anticipated to be sufficient to meet ESD's obligations for fiscal 2020.

(l) Grants

ESD administers certain reimbursement grant funds from Federal, State and City agencies. Reimbursement grants are awarded for a specifically defined program/project and are generally administered so that ESD is reimbursed for any qualified expenditures incurred by the grantee and made in connection to such programs/projects. ESD records reimbursement grants as revenue when the related program/project costs are incurred. Differences between the costs incurred on specific programs/projects and the related approved grants are reflected as a receivable or as a deferred inflow in the accompanying consolidated statements of net position.

(m) Derivative Instruments

The Corporation had used interest rate swap agreements to manage the impact of interest rates on its Service Contract Revenue Refunding 2008A bonds and its State Personal Income Tax Revenue Bonds, Series 2004A-3 bonds. Accounting standards require that an entity recognize the fair value of all derivative instruments as either deferred outflows of resources or deferred inflows of resources in the consolidated statements of net position, with appropriate offsets to either operations or net position. The fair value of the instruments is recorded either as deferred outflows of resources or deferred inflows of resources. ESD is fully reimbursed by the State for all expenses related to revenue bonds.

Note 2 - Summary of Significant Accounting Policies, Continued

(n) Pollution Remediation Costs

Pollution remediation obligations are being charged in accordance with the provisions of GASB Statement No. 49 (see note 13) and occur when any one of the following obligating events takes place: (1) the Corporation is in violation of a pollution prevention-related permit or license; (2) an imminent threat to public health due to pollution exists; (3) the Corporation is named by a regulator as a responsible or potentially responsible party to participate in remediation; (4) the Corporation voluntarily commences or legally obligates itself to commence remediation efforts; or (5) the Corporation is named or there is evidence that the Corporation will be named in a lawsuit that compels participation in remediation activities.

(o) Deferred Outflows and Inflows of Resources

In the consolidated statements of net position, in addition to assets, the Corporation will sometimes report a separate section of deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Corporation has four items that qualify for reporting in this category. The first item is the deferred loss on derivative instruments discussed in note 2(m). The second item is the deferred loss on refunding the NYCCDC Revenue Bonds (Hotel Unit Fee Secured) Series 2005 through the issuance of Revenue Refunding (Hotel Unit Fee Secured) Series 2015 Bonds discussed in note 11. The third item is related to pensions, which represents the effect of the net change in the Corporation's proportion of the collective net pension asset or liability and difference during the measurement period between the Corporation's contributions and its proportionate share of total contributions to the pension systems not included in pension expense. The fourth item is the Corporation's contributions to the pension system subsequent to the measurement date.

In the consolidated statements of net position, in addition to liabilities, the Corporation will sometimes report a separate section of deferred inflows of resources. The separate financial statement element reflects an increase in net position that applies to future periods. The Corporation will not recognize the related revenues until a future event occurs. The Corporation has five types of items that qualify for reporting in this category. The first item is the fair market value of derivative instruments held for the purpose of hedging a specific risk. The second item is in relation to grants receipts collected in advance of the period to be benefitted. The third item is related to pensions and represents the change in the proportion between the Corporation's contributions and the proportionate share of total plan contributions. The forth item is related to the other post-employment benefit obligations, and represents the effect of the net change in the obligation caused by changes in actuarial assumptions as detailed in note 9. The fifth item relates to other agreements into which the Corporation has entered that provide receipts in advance of the period to be benefitted and is detailed in note 15.

(p) Subsequent Events

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

Note 2 - Summary of Significant Accounting Policies, Continued

(q) Reclassifications

Reclassifications have been made to certain 2018 balances in order to conform them to the 2019 presentation.

Note 3 - Cash and Equivalents

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

At March 31, 2019 and 2018, cash held in demand and custodial deposits, as well as cash equivalents were collateralized by the depository institution, generally with obligations of the United States, its agencies, or New York State obligations with a remaining maturity when purchased of 90 days or less, as follows (in thousands):

	2019		2018	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC)	$ 1,330	1,330	1,425	1,425
Uninsured - collateral held by custodian in ESD's name	419,665	420,023	398,296	398,740
Deposits held in trust for the Corporation's benefit	23,709	23,709	1,194	1,194
Total cash and cash equivalents	$ 444,704	445,062	400,915	401,359

Note 4 - Fair Value of Financial Instruments

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

- Obligations of the United States Treasury, agencies and authorities;
- Direct obligations of the State of New York, its political subdivisions and public authorities;
- Bonds and other obligations of governmental authorities, political subdivisions, Federal Agencies, Government Sponsored Enterprises ("GSE's") or public authorities of the State or of the United States of America, which are securities in which the Corporation lawfully may invest pursuant to applicable statutes, regulations and bond resolutions including, but not limited to, Federal National Mortgage Association ("FNMA"), Federal Farm Credit Bank ("FFCB"), Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC - Freddie Mac"), and Student Loan Marketing Association ("SLMA - Sallie Mae");
- Repurchase agreements with financial institutions authorized to do business in New York State which are listed as primary government securities dealers by New York's Federal Reserve Bank, and which are collateralized by U.S. Government securities;

Note 4 - Fair Value of Financial Instruments, Continued

- Commercial paper issued by domestic banks, corporations and financial companies rated “A-1” or better by Standard & Poor’s Corporation or “P-1” or better by Moody’s Investors Service, Inc.;
- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in ESD’s name;
- Certificates of deposit of banks or trust companies authorized to do business in the State;
- Units, shares or interest in a mutual fund or money market fund of regulated investment companies that meet specified criteria; and
- Real property.

Investment securities cost and fair value at March 31, 2019 and 2018 consisted of the following (in thousands):

	2019		
	Cost	Fair Value	Unrealized Loss
U.S. Government and Federal Agency obligations	$ 2,515,913	2,508,137	(7,776)
Restricted cash	386,045	386,045	-
Total	$ 2,901,958	2,894,182	(7,776)

	2018		
	Cost	Fair Value	Unrealized Loss
U.S. Government and Federal Agency obligations	$ 2,021,744	2,013,385	(8,359)
Restricted cash	325,123	325,123	-
Total	$ 2,346,867	2,338,508	(8,359)

Fair Value Measurements

Generally accepted accounting principles 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). The three levels of the fair value hierarchy under generally accepted accounting principles are as follows:

- Level 1 - Valuations are based on quoted prices in active markets for identical assets or liabilities that the Corporation has the ability to access.
- Level 2 - Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable directly, or indirectly.
- Level 3 - Valuations are based on inputs that are unobservable and significant to overall fair value measurement.

The Corporation holds financial instruments with quoted prices in active markets for identical assets (level 1) of $2,508,137 and $2,013,385 at March 31, 2019 and 2018, respectively.

Note 4 - Fair Value of Financial Instruments, Continued

Restricted or designated investment securities held by ESD include cash and equivalents and investment securities amounting to $1,293.6 million and $1,177.6 million at March 31, 2019 and 2018, respectively. These amounts at March 31, 2019 and 2018 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2019	2018
Subsidiary/Programs/Purposes:		
42nd Street Development Project	$ 19,672	17,867
New York Empowerment Zone Corporation	5,795	8,338
Queens West Development Corporation	20,873	19,149
Harlem Community Development Corporation	8,036	8,156
Enterprise Community	857	840
USA Niagara Development Corp	4,847	9,525
Lower Manhattan Development Corporation	280	279
New York Convention Center Development Corporation	701,519	683,314
ESD Moynihan Station (James A. Farley Post Office Building)	206,566	126,961
ESD One Bryant Park	8,255	8,044
ESD Columbia SAC	1,070	1,314
ESD Erie Canal Harbor Development Corporation	26,352	29,433
ESD Privatization Program	1,052	1,029
Empire State New Market Corporation	3,093	2,019
ESD OPEB Liability Account	32,347	31,697
ESD Brooklyn Arena Project, ESD Atlantic Yard Project -Phase 1	285	229
ESD 125 Maiden Lane	63,947	63,728
ESD New York	3,112	3,074
ESD Project Repair Program	12,549	12,189
ESD Farley	1,245	4,080
ESD Marriot Marquis Purchase Option Fund	1,424	1,413
ESD TRAIL Remaining Fund	3,616	3,542
ESD Section 32 Remaining Fund	1,374	342
ESD Stadium Improvement Project	25	1,033
ESD Erie County Stadium Corporation Capital Improvement	504	4
ESD Arthur Kill Development Project	237	255
ESD Bronx Psychiatric Center Development Project	1,530	1,290
ESD Venture Atlantic Yard Project – Phase 2	1,436	714
Public Authority Control Board Authorized (including rent subsidy program in Lower Manhattan)	157,294	134,203
ESD Bayview Correctional Facility Project	674	661
Statewide Local Development Corporation	15	10
Other Purposes	3,715	2,881
Totals	$ 1,293,596	1,177,613

Note 5 - Loans and Leases Receivable

Nonresidential lease receivables, commercial lease receivables, real estate investments and economic development loans at March 31, 2019 and 2018 consist of the following (in thousands):

	2019		2018	
	Number	Balance	Number	Balance
Non-residential lease receivables, commercial lease receivables and real estate investments:				
Lease receivables (a)	3	$ 6,163	3	$ 7,710
Commercial leases (b)	4	3,007	4	3,292
Real estate investments (c)	10	1,331	10	1,331
	17	10,501	17	12,333
Economic development loans (d)	49	87,304	50	85,554
Total	66	97,805	67	97,887
Less current portion		(2,621)		(4,352)
Non-current portion		$ 95,184		$ 93,535

(a) Non-residential Lease Receivables

Non-residential lease receivables included three projects outstanding in 2019 and 2018, which were owned by ESD and leased to others. ESD earns a 7% to 8.25% return, plus the original investment of funds. At March 31, 2019, the remaining lease terms ranged from 1 to 5 years. There are 2 leases with the City of New York ($6.2 million). At March 31, 2019, minimum lease payments to be received within the next 5 fiscal years total $12.6 million.

(b) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments ("TEP") pursuant to ground leases on 4 Roosevelt Island housing projects in 2019 and 2018, which include 2 non-subsidized, one subsidized, and 1 cooperative, totaling 2,141 units. Based on the existing TEP agreements, payments continue to the Corporation. The various ground lease terms range from 1 to 11 years. The receivable balance of $3.0 million is amortized at an average annual interest rate of 7.5%.

(c) Real Estate Investments

Real estate investments consist of approximately 371 acres of land (comprised of 10 sites) in the Towns of Lysander and Amherst for residential, commercial and industrial development in the planned communities of Radisson and Audubon.

Note 5 - Loans and Leases Receivable, Continued

(d) Economic Development Loans

Economic development loans consist of secured, low interest loans made to companies in the State to retain and create jobs. The terms of outstanding loans range from 1 to 14 years. The funds to make the loans come from State appropriations, which are not repayable. The loans are net of allowance for possible losses of approximately $44.9 million and $45.2 million at March 31, 2019 and 2018, respectively.

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

ESD expects to receive $395.0 million over 15.5 years from the Port Authority. The revenue stream was assigned to ESD in fiscal 2005 by the State of New York. The net present value of the future cash flows in the amount of approximately $280.0 million was recorded in the consolidated financial statements in fiscal 2005 as a receivable from the Port Authority and revenue (included with State appropriation for programs). At March 31, 2019, annual minimum payments to be received over the next two years total approximately $66.7 million. The net present value of the receivable balance at March 31, 2019 and 2018 was $62.7 million and $85.8 million, respectively.

Pursuant to an October 19, 2010 agreement between Moynihan Station Development Corporation ("MSDC") and the Port Authority, MSDC was to receive up to $10.0 million from the Port Authority to extend the West End Concourse at New York Penn Station. In fiscal 2019 and 2018, the Port Authority made an additional payment of $0.5 million to MSDC. The receivable balance at March 31, 2018 was $0.5 million and was paid in full at March 31, 2019.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2019 and 2018 consists of the following (in thousands):

	2019			
	Balance at March 31, 2018	Additions	Disposals	Balance at March 31, 2019
Land	$ 372,788	117	-	372,905
Buildings, improvements and construction in progress (incl. Farley)	1,895,209	398,975	-	2,294,184
Moynihan Station	760,773	461,299	-	1,222,072
Furniture and equipment	34,711	2,528	-	37,239
	3,063,481	862,919	-	3,926,400
Less accumulated depreciation	(471,784)	(37,330)	-	(509,114)
Totals	$ 2,591,697	825,589	-	3,417,286

Note 7 - Real Property and Office Equipment, Continued

	2018			
	Balance at March 31, 2017	Additions	Disposals	Balance at March 31, 2018
Land	$ 372,739	49	-	372,788
Buildings, improvements and construction in progress (incl. Farley)	1,687,397	207,812	-	1,895,209
Moynihan Station	354,722	406,051	-	760,773
Furniture and equipment	25,395	9,316	-	34,711
	2,440,253	623,228	-	3,063,481
Less accumulated depreciation	(434,946)	(36,838)	-	(471,784)
Totals	$ 2,005,307	586,390	-	2,591,697

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2019 and 2018 are as follows (in thousands):

	2017	Net increase (decrease)	2018	Net increase (decrease)	2019
New York Convention Center Development Corporation	$ 1,265,695	190,255	1,455,950	396,567	1,852,517
USA Niagara	22,344	7	22,351	100	22,451
James A. Farley Post Office Building and other ESD property	384,317	17,522	401,839	2,292	404,131
Other Subsidiaries	15,041	28	15,069	16	15,085
Total	$ 1,687,397	207,812	1,895,209	398,975	2,294,184

(b) James A. Farley Post Office Building

On March 30, 2007, ESD purchased 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	plus certain Consumer Price Index Adjustments
Total	$ 230,000	

Note 7 - Real Property and Office Equipment, Continued

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

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

The Port Authority of New York and New Jersey committed $140.0 million for the acquisition 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.

At March 31, 2019, ESD had paid all amounts related to the purchase of the James A Farley Post Office Building, except the $55.0 million deferred purchase price and related accrued interest.

(c) Yale Building

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

(d) Depreciation

Depreciation expense for the years ended March 31, 2019 and 2018 amounted to $37.3 million and $36.8 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2019 and 2018 consist of the following (in thousands):

	2019	2018
Interest receivable	$ -	(1,513)
Receivable from municipalities, other authorities and others	79,950	76,797
Hotel tax receivable	4,385	4,214
Prepaid insurance	5,585	7,162
Reserve for commercial real estate projects	114,013	112,272
Other	9,864	13,735
	213,797	212,667
Less current portion	(23,191)	(18,776)
Non-current portion	$ 190,606	193,891

Note 9 - Post-employment Benefits Other Than Pensions

The Corporation implemented the accounting and disclosure requirements of GASB Statement No. 75 - "Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions," effective for its fiscal year ended March 31, 2019. With the adoption of GASB Statement No. 75, the method of calculating and recording the Other Post-employment Benefit (OPEB) liability was changed significantly and, as a result, the Corporation has determined the presentation of GASB Statement No. 45 compliant information for the prior year is not warranted.

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.

As indicated above, the Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they reach the normal retirement age of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees.

The number of participants as of April 1, 2017, the date of the valuation used for the March 31, 2019 measurement, was as follows:

Active employees	338
Retired employees	193
Total	531

Total OPEB Liability

The Corporation's total OPEB liability of $131.8 million was measured as of March 31, 2019 and was determined by an actuarial valuation as of that date.

Note 9 - Post-employment Benefits Other Than Pensions, Continued

Actuarial Assumptions and Other Inputs

The total OPEB liability in the March 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Salary increases	2.5%
Discount rate	3.92%
Healthcare cost trend rates	5.5% declining to 3.8%

Changes in the Total OPEB Liability

Original OPEB obligation as of April 1, 2018 (under GASB 45)	$ 44,657
Cumulative effect of change in accounting principle (required by GASB 75)	79,081
Total OPEB liability as of April 1, 2018	123,738
Changes for the year:	
Service cost	6,503
Interest on total OPEB liability	5,012
Changes in assumptions	(654)
Benefit payments	(2,802)
Total changes	8,059
Total OPEB liability as of March 31, 2019	$ 131,797

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Corporation, as well as what the Corporation's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.92%) or 1-percentage-point higher (4.92 %) than the current discount rate:

	1% Decrease (2.92%)	Discount Rate (3.92%)	1% Increase (4.92%)
Total OPEB liability	$ 156,503	131,797	112,483

This analysis represents sensitivity of the OPEB liability as of March 31, 2019.

Note 9 - Post-employment Benefits Other Than Pensions, Continued

Sensitivity of the total OPEB liability to changes in the healthcare costs trend rates

The following presents the total OPEB liability of the Corporation, as well as what the Corporation's total OPEB liability would be if it were calculated using a rate that is 1-percentage point lower (4.5%) or 1-percentage point higher (6.5%) than the current trend rate:

	1% Decrease (4.5%)	Trend Rate (5.5%)	1% Increase (6.5%)
Total OPEB liability	$ 109,711	131,797	160,585

This analysis represents sensitivity of the OPEB liability as of March 31, 2019.

At March 31, 2019 the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	$ -	(546)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending	
2019	$ (109)
2020	(109)
2021	(109)
2022	(109)
2023	(110)

Note 10 - Revenue Bonds

At March 31, 2019 and 2018, ESD's outstanding revenue bonds were as follows (in thousands):

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances 2019	Balances 2018	Coupon rates (%)	Maturity dates
State Facilities and Equipment				
2004 Series A-2	$ 193,225	227,350	5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2007 Series B	-	7,780	5.00	Redeemed
2007 Series C	-	7,840	4.00 - 4.25	Redeemed
2009 Series B-1	-	27,025	4.00 - 5.00	Redeemed
Economic Development and Housing				
2009 Series A-1	-	20,415	5.00	2018
2009 Series A-2 (Taxable)	-	17,005	6.50	2018
General Purpose				
2009 Series C	205,435	289,515	4.00 - 5.00	2022
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	66,920	142,425	3.25 - 5.00	2020
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	393,135	411,960	3.50 - 5.00	2041
2011 Series B (Taxable)	35,980	53,330	2.59 - 2.79	2021
2013 Series A-1	566,560	572,390	3.50 - 5.00	2043
2013 Series A-2	45,145	55,765	2.00 - 5.00	2026
2013 Series B (Taxable)	-	29,310	1.75	2019
2013 Series C	616,800	646,775	5.00	2033
2013 Series D	407,785	417,235	5.00	2025
2013 Series E	686,275	713,975	5.00	2043
2013 Series F (Taxable)	184,250	227,530	2.70 - 3.45	2023
2014 Series A	806,735	846,895	5.00	2044
2014 Series B (Taxable)	203,725	246,235	2.35 - 3.08	2024
2015 Series A	813,650	831,390	5.00	2045
2015 Series B (Taxable)	73,005	128,335	1.97 - 2.17	2021
2016 Series A	1,596,290	1,654,930	2.00 - 5.00	2038

(Continued)

Note 10 - Revenue Bonds, Continued

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
General Purpose	2019	2018	rates (%)	dates
2017 Series A	$ 806,265	807,960	3.50 - 5.00	2047
2017 Series B (Taxable)	839,785	941,070	2.10 - 3.42	2028
2017 Series C	701,775	733,235	4.00 - 5.00	2047
2017 Series D (Taxable)	1,017,510	1,017,510	2.18 - 3.47	2032
2019 Series A	741,460	-	4.00 - 5.00	2048
2019 Series B (Taxable)	802,355	-	2.94 - 3.90	2033
Total Personal Income Tax Revenue Bonds	13,092,455	12,363,575		
(b) University Facilities				
Columbia University 1989 Series (Taxable)	4,594	9,043	zero coupon	2019
Cornell University 1989 Series (Taxable)	615	1,211	zero coupon	2019
Clarkson University - Loan 1995 Series	970	1,890	5.50	2020
University Facilities Grants 1995 Series	2,045	3,605	5.88	2021
Total University Facilities Issues	8,224	15,749		
(c) State Office Facilities				
State Office Facilities 1995 Refunding Series	37,945	55,400	5.70	2020
(d) Service Contract Refunding				
2008 Series A	150,780	163,140	Variable note	2030
2008 Series B	-	360,310	4.125 - 5.25	Redeemed
2008 Series C	-	98,885	3.875 - 5.00	Redeemed
2008 Series D	-	318,810	5.25 - 5.63	Redeemed
2010 Series A	165,700	208,960	5.00	2022
2011 Series A	2,375	3,520	2.00 - 4.00	2020
Total Service Contract Refunding	318,855	1,153,625		
Total all issues	13,457,479	13,588,349		
Less current portion	(1,010,410)	(955,850)		
Total non-current revenue bonds	$ 12,447,069	12,632,499		

(Continued)

Note 10 - Revenue Bonds, Continued

A summary of changes in outstanding revenue bonds at March 31, 2019 and 2018 is as follows:

	2018	Increases	Decreases	2019
Personal Income Tax Revenue Bonds	$ 12,363,575	1,543,815	(814,935)	13,092,455
University Facilities	15,749	-	(7,525)	8,224
State Office Facilities	55,400	-	(17,455)	37,945
Service Contract Refunding	1,153,625	-	(834,770)	318,855
Total	$ 13,588,349	1,543,815	(1,674,685)	13,457,479

Revenue bonds issued by ESD on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to ESD to make debt service payments (principal and interest) on the bonds and related expenses. Therefore, the issuance of all revenue bonds is not expected to result in any net revenue or expense to ESD, since any debt service not covered by available assets is recovered by State appropriation. ESD assets related to these financings as of March 31, 2019 and 2018 are as follows (in thousands):

	2019	2018
Due from State of New York	$ 12,555,999	13,117,852
Debt service reserve	17,753	17,490
Cash and investments	955,466	525,646
Less accrued interest payable	(43,685)	(44,718)
Less other	(28,054)	(27,921)
Bonds payable	$ 13,457,479	13,588,349

Note 10 - Revenue Bonds, Continued

New York State Special Project Revenue Bonds - Defeasance

As of March 31, 2018, $402.8 million remained outstanding and was considered to be defeased. As of March 31, 2019, there were no amounts defeased and not yet redeemed.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2019A and 2019B (Federally Taxable)

In January 2019, ESD issued $1,543.8 million in State Personal Income Tax Revenue Bonds (General Purpose): $741.5 million Series 2019A and $802.3 million Series 2019B (Federally Taxable). The Series 2019A and 2019B bonds (the “Series 2019 Bonds”) were issued for the purpose of financing Authorized Purposes. Proceeds of the Series 2019 Bonds were used to finance or reimburse all or a portion of the costs of programs and projects throughout the State, including information technology projects, housing assistance projects and programs, economic development projects, MTA Transportation Facilities and State facilities projects. In addition, proceeds of the Series 2019 Bonds were used to pay all or part of the cost of issuance of the Series 2019 Bonds.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2017C & 2017D (Federally Taxable)

In December 2017, ESD issued $1,750.7 million in State Personal Income Tax Revenue Bonds (General Purpose): $733.2 million Series 2017C and $1,017.5 million Series 2017D (Federally Taxable). The Series 2017C and 2017D bonds (the “Series 2017 Bonds”) were issued for the purpose of financing Authorized Purposes. Proceeds were used to (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including economic development projects, correctional and youth facilities projects, State and municipal facilities projects, housing assistance projects and programs, information technology projects, environmental infrastructure projects and high technology and development projects, and (b) refund certain State-supported debt previously issued by the Corporation. In addition, proceeds of the Series 2017 Bonds were used to pay all or part of the cost of issuance of the Series 2017 Bonds.

Note 10 - Revenue Bonds, Continued

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2019 are as follows (in thousands):

	Principal	Interest (a)	Total
2020	$ 1,010,410	597,478	1,607,888
2021	1,103,285	546,723	1,650,008
2022	997,540	501,076	1,498,616
2023	997,765	460,396	1,458,161
2024	947,630	418,822	1,366,452
	$ 5,056,630	2,524,495	7,581,125

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2024 are approximately $8.4 billion.

Interest Rate Transactions

The remaining balances of the interest rate swap agreements were $374.7 million and $387.1 million at March 31, 2019 and 2018, respectively. During fiscal 2019, the notional amount of the interest rate swap agreements in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) decreased from $163.1 million at March 31, 2018 to $150.8 million at March 31, 2019.

Under the swap agreements, the Corporation effectively converted terms of the underlying debt obligation from a variable rate 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 LIBOR rate. The maturities of the swaps are equal to the maturities of the Series 2008A Bonds and amortization began in 2017 with a final maturity in 2030. Since the Corporation is fully reimbursed by the State for all swap-related payments, no gains or losses will be recognized.

The remaining $223.9 million interest rate swap balance supports 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 LIBOR rate and pays a fixed rate to the related counterparties of 3.49%. Since the Corporation is fully reimbursed by the State for all swap-related payments, no gains or losses will be recognized.

The fair value of the swaps is recorded as deferred inflows of resources and the related deferred loss as deferred outflows of resources.

Note 11 - New York Convention Center Development Corporation Revenue Bonds

In August 2015, NYCCDC, a subsidiary of ESD, issued $632.1 million Revenue Refunding Bonds Series 2015 (Hotel Unit Fee Secured) for the purpose of (a) refunding the outstanding balance of the $700.0 million Revenue Bonds Series 2005 (Hotel Unit Fee Secured); (b) paying certain costs of expanding and renovating the Jacob K. Javits Convention Center (the "Javits Center") located in New York City; (c) funding certain reserves; and (d) paying for the costs of issuance. These bonds will be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

In September 2016, NYCCDC issued $420.2 million in Senior and Subordinated Lien Revenue Bonds Series 2016A and Series 2016B (Hotel Unit Fee Secured): $193.1 million Senior Lien Series 2016A and $227.1 million Subordinated Lien Series 2016B (the "Series 2016 bonds") were issued to (i) pay certain of the costs of expanding and renovating the Javits Center, (ii) fund the Revenue Account up to the Revenue Account Requirement, (iii) fund the Debt Service Reserve Accounts up to the Debt Service Reserve Accounts Requirements, (iv) fund a deposit to the Subordinated Lien Capitalized Interest Account, and (v) pay the costs of issuance of the Series 2016 Bonds. These bonds will be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

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

As of March 31, 2019 and 2018, NYCCDC's outstanding Revenue Bonds were as follows (in thousands):

2016 A and B Revenue Bonds	Balances 2019	Balances 2018	Coupon rates (%)	Remaining payments to
Serial	$ 34,970	36,005	2.75 - 5.00	2056
Term	4,390	4,390	5.00	2041
Term	45,475	45,475	5.00	2046
Capital Apprec.	362,665	351,259	Zero Cpn	2056
	447,500	437,129		
Unamortized bond premium	14,750	16,187		
	$ 462,250	453,316		

Note 11 - New York Convention Center Development Corporation Revenue Bonds, Continued

2015 Revenue Bonds	Balances 2019	Balances 2018	Coupon rates (%)	Remaining payments to
Serial	$ 309,425	320,325	3.00-5.00	2045
Term	121,635	121,635	5.00	2040
Term	50,285	50,285	3.50	2045
Term	25,010	25,010	4.00	2045
Term	100,225	100,225	5.00	2045
	606,580	617,480		
Unamortized bond premium	50,113	55,385		
	$ 656,693	672,865		

	2019	2018
2016 A and B Revenue Bonds	$ 462,250	453,316
2015 Revenue Bonds	656,693	672,865
	1,118,943	1,126,181
Less current portion	(13,530)	(11,935)
Total non-current project Revenue Bonds - New York Convention Center Development Corporation	$ 1,105,413	1,114,246

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

Series 2015 Bonds - Early redemption options may commence in 2025 at 100%.

Series 2016A and 2016B Bonds - Early redemption options on certain bonds may commence in 2026 at 100%.

Annual principal maturities and interest obligations for the next five years following March 31, 2019 are as follows (in thousands):

	Principal	Interest	Total
2020	$ 13,530	32,866	46,396
2021	15,230	32,236	47,466
2022	16,525	31,525	48,050
2023	17,835	30,698	48,533
2024	19,215	29,459	48,674
	$ 82,335	156,784	239,119

Aggregate principal maturities, including all accreted interest on capital appreciation debt, subsequent to 2024 are approximately $1.5 billion.

Note 12 - Other Financing

On March 30, 2007, ESD completed the purchase of the James A. Farley Post Office Building (the "Farley Building") and entered into two financing agreements totaling $205.0 million. The first note, a $75.0 million mortgage loan, 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 due on the following dates: (a) On June 30, 2007, $45.0 million as adjusted by the March 30, 2007 Consumer Price Index ("CPI"); (b) On June 30, 2008, $30.0 million as adjusted by the March 30, 2007 CPI; (c) the remaining balance of $55.0 million before adjustment by CPI is being deferred and payable from tenants' project revenues as described more fully in the funding agreement.

At March 31, 2019, ESD has paid all amounts related to the purchase of the Farley Building, except the $55.0 million that is to come from tenants' project revenue. Interest based on CPI continues to accrue on this outstanding balance, and total interest accrued at March 31, 2019 and 2018 amounted to $21.3 million and $20.1 million, respectively.

Note 13 - Pollution Remediation Obligations

ESD performs evaluations of potential pollution remediation costs not less than annually at all development projects and performs this evaluation at the start of any new project. All estimates related to pollution remediation for each project are made by construction experts affiliated with the project and recorded as a liability when received. At March 31, 2019, there is no material pollution remediation liability relative to the existing development projects.

Note 14 - Other Liabilities

Other liabilities at March 31, 2019 and 2018 consist of the following (in thousands):

	2018	Increases	Decreases	2019
Restricted funds for grants, economic development programs and special projects/bonds	$ 163,052	47,729	-	210,781
Other loan and revolving loan programs - advances from State	413	-	-	413
Other accruals	57,202	5,214	-	62,416
Totals	220,667	52,943	-	273,610
Less current portion	(60,116)			(72,026)
Non-current portion	$ 160,551			201,584

Note 15 - Deferred Inflows of Resources - Other

Deferred inflows of resources - other at March 31, 2019 and 2018 consist of the following (in thousands):

	2018	Increases	Decreases	2019
Restricted funds for grants, economic development programs and special projects/bonds	$ 11,722	-	(223)	11,499
Deferred gain on ground lease deposit (a)	2,483	-	-	2,483
Deferred funding for the Moynihan Station Project (b)	65,192	341,489	(347,724)	58,957
Other loan and revolving loan programs - advances from State	1,754	-	-	1,754
Other accruals (c)	56,399	-	(5,112)	51,287
Totals	$ 137,550	341,489	(353,059)	125,980

(a) On November 26, 2007 the Harlem Community Development Corporation ("HCDC") entered into a memorandum of understanding ("MOU") with Danforth Development Partners, LLC ("Danforth") for the redevelopment of the Victoria Theater property. At the completion of the redevelopment project, HCDC will enter into a ground lease with Danforth, giving Danforth all rights in the property for the term of the lease. To execute the MOU, Danforth made a $1 million non-refundable deposit on the ground lease of the Victoria Theater. Revenue from the deposit will remain deferred until the ground lease is executed. In fiscal 2016, HCDC received approximately $1.5 million in additional advances under this agreement. No advances were received in fiscal 2019.

(b) The Moynihan Station Project (the "Project") is proceeding according to the Development Agreement entered into on June 15, 2017 by and among the project sponsors, ESD, the Metropolitan Transit Authority, the National Railroad Passenger Corporation ("Amtrak"), and the private development partnership of The Related Companies, Skanska Construction and Vornado Realty Trust. Financial support of the Project is provided through an appropriation in the New York State budget of $700.0 million, of which $150.8 million was used to prepay the mortgage loan that encumbered the Farley Building and the remaining $549.2 million is funding for Phase 2 of the Project. Further funding is provided in accordance with an Agreement of Lease (the "Agreement") dated June 15, 2017 by and between ESD and the Moynihan Interim Tenant LLC c/o Vornado Realty Trust (the "Tenant"), in which the Tenant agreed to contribute $230 million to Phase 2 of the Project. Per the Agreement, the Tenant is committed to pay on a quarterly basis rent and Payments In Lieu of Taxes. As of March 31, 2019, $16.6 million was received. Additionally, pursuant to the Development Agreement for the Project, Amtrak has agreed to contribute $105 million toward Phase 2 of the Project.

Note 15 - Deferred Inflows of Resources - Other, Continued

(c) The Corporation, through its subsidiary, Erie Canal Harbor Development Corporation ("ECHDC"), entered into a re-licensing agreement ("the agreement") with New York Power Authority ("NYPA"), under which the Corporation will receive annual payments of $4.7 million through the year 2029. The remaining stream of payments as of March 31, 2019 is $47.0 million. The agreement requires ECHDC to submit an annual report to NYPA to show that this stream of payments is being expended in accordance with the agreement. The balance of this payment stream is deferred for specific performance by ECHDC.

Note 16 - Appropriations Repayable Under Prescribed Conditions

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

The appropriations repayable under prescribed conditions originated from the recapitalization of ESD. The State advanced $162.6 million to ESD and $198.1 million to PFA. The PFA obligation was assigned to ESD increasing the total amount repayable to $360.7 million. Since 1978, ESD has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2019 and 2018 amounted to $197.6 million.

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

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

Annually, ESD may be required, if and when notified by the State, to provide JDA, with amounts ranging from $10.0 million to $10.7 million, depending on anticipated annual cash flow savings from the 1996 Refunding. No payments were made to JDA in 2019 and 2018. No payments are anticipated to be made during 2020.

Note 16 - Appropriations Repayable Under Prescribed Conditions, Continued

It is also anticipated that the $26.9 million due from JDA for reimbursement to ESD for administrative expenses incurred on behalf of JDA as of March 31, 2019 ($26.5 million as of March 31, 2018), may also be credited against appropriations repayable under prescribed conditions. ESD has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by ESD on its investment portfolio. The cumulative interest earned, which covers the last twenty-four fiscal years, is $8.1 million.

Note 17 - Retirement Plans

(a) Deferred Compensation and Postemployment Benefits

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

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

(b) State Employees' Retirement System

ESD participates in the System. This is a cost-sharing multiple-employer retirement system. The System provides retirement benefits, as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Corporation (the "Corporation"), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York serves as the trustee of the Corporation and is the administrative head of the System. The System benefits are established under the provision of the New York State Retirement and Social Security Law. Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

The Corporation also participates in the Public Employees Group Life Insurance Plan, which provides death benefits in the form of life insurance. The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/inex.php or obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12244.

Note 17 - Retirement Plans, Continued

(b) State Employees' Retirement System, Continued

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

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

	ERS
2019	$ 3,729
2018	3,767
2017	3,575

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

At March 31, 2019 and 2018, ESD reported the following liability for its proportionate share of the net pension liability for ERS. The net pension liability was measured as of March 31, 2018 and 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation. ESD's proportionate share of the net pension liability was based on a projection of its long-term share of contributions to the System relative to the projected contributions of all participating members, actuarially determined. This information was provided by ERS in reports provided to ESD (in thousands).

	2019	2018
Actuarial valuation date	4/1/2017	4/1/2016
Net pension liability	$ 2,907	8,391
Corporation's proportion of the Plan's net pension liability	.0900706%	.0892992%

Note 17 - Retirement Plans, Continued

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

For the years ended March 31, 2019 and 2018, ESD recognized ERS pension expense of $3.5 million and $4.7 million, respectively. At March 31, 2019 and 2018, ESD's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	March 31, 2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,037	857
Changes in assumptions	1,927	-
Net difference between projected and actual earnings on pension plan investments	4,222	8,334
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	299	117
Corporation's contributions subsequent to the March 31, 2018 measurement date	3,729	-
Total	$ 11,214	9,308

	March 31, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 210	1,274
Changes in assumptions	2,867	-
Net difference between projected and actual earnings on pension plan investments	1,676	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	130	220
Corporation's contributions subsequent to the March 31, 2017 measurement date	3,767	-
Total	$ 8,650	1,494

Note 17 - Retirement Plans, Continued

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

ESD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2019. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended	ERS
2019	$ 603
2020	534
2021	(2,032)
2022	(928)
2023	
Thereafter	-

(d) Actuarial Assumptions

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

Measurement date	March 31, 2018
Actuarial valuation date	April 1, 2017
Interest rate	7.0%
Salary scale	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

Annuitant mortality rates are based on April 1, 2010 - March 31, 2015 System's experience with adjustments for mortality improvements based on MP-2014.

The actuarial assumptions used in the April 1, 2017 valuation are based on the results of an actuarial experience study for the period April 1, 2010 - March 31, 2015.

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

Note 17 - Retirement Plans, Continued

(d) Actuarial Assumptions, Continued

Measurement date	March 31, 2018
	Real Rate of Return*
Asset type:	
Domestic equity	4.55%
International equity	6.35%
Private equity	7.50%
Real estate	5.55%
Absolute return strategies	3.75%
Opportunistic portfolio	5.68%
Real assets	5.29%
Bonds and mortgages	1.31%
Cash	(0.25%)
Inflation - indexed bonds	1.25%

*Real rate of return is net of long-term inflation assumption of 2.50%.

(e) Discount Rate

The discount rate used to calculate the total pension liability as of the March 31, 2018 measurement date was 7.0%. The projection of cash flows used to determine the discount rate assumes that contributions from plan members will be made at the current contribution rates and that contributions from employers will be made at statutorily required rates, actuarially. Based upon the assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents ESD's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what ESD's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate (in thousands):

	1% Decrease (6.0%)	Current Assumption (7.0%)	1% Increase (8.0%)
Employer's proportionate share of the net pension (asset) liability	$ 21,995	2,907	(13,241)

Note 17 - Retirement Plans, Continued

(g) Pension Plan Fiduciary Net Position

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

	(Dollars in Millions)	
Valuation date	4/1/2018	4/1/2017
Employers' total pension liability	$(183,400)	(177,401)
Plan net position	180,173	168,004
Employers' net pension liability	$ (3,227)	(9,397)
Ratio of plan net position to the Employers' total pension liability	98.2%	94.7%

(h) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31. Retirement contributions as of March 31, 2019 and 2018 represent the projected employer contributions for the period of April 1, 2017 through March 31, 2018 and April 1, 2016 through March 31, 2017, respectively, based on paid ERS wages multiplied by the employer's contribution rate, by tier. This amount has been recorded as deferred outflows of resources in the accompanying consolidated financial statements.

(i) New York State Voluntary Defined Contribution Program

In March 2012, Chapter 18 of the Laws of 2012 was signed into law and allows ESD employees, that meet certain requirements, to participate in the State University of New York (SUNY) optional retirement plan called the NYS Voluntary Defined Contribution Plan (VDC Program).

Beginning July 1, 2013, employees who earn $75,000 or more were given the option of joining either the VDC program or the ERS. The VDC program provides benefits that are based on contributions made by both ESD and the participant. Employee contribution rates range from 4.5% to 6%, dependent upon annual salary. The employer contribution rate is 8% of gross income. All contributions and any subsequent earnings are held by ESD in a segregated account and credited to individual accounts for each plan participant. Employees vest after one year of service, at which time their entire account balance is transferred to an investment firm of their choosing within the VDC program. ESD's involvement with their account ends at that time. The amount owed to participants upon retirement is based solely on the account balance at the time of withdrawal.

As of March 31, 2019 and 2018, there were 37 and 33 ESD employees enrolled in the VDC program, respectively.

Note 18 - Commitments and Contingencies

Commitments and contingencies at March 31, 2019 consist of the following:

(a) Legal Actions

General

ESD and its subsidiaries are named as defendants in legal actions arising in the normal course of its economic development operations, including matters regarding employment, alleged breach of contract, condemnation proceedings and other claims under federal and New York State law. In addition, defendants in mortgage loan foreclosure proceedings initiated by ESD assert defenses and counterclaims for damages. ESD believes that the ultimate outcome of legal actions arising in the normal course of operations will not have a material adverse effect on its financial condition.

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

In one lawsuit, Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County), commenced in 2004, plaintiff Nassau County ("the County") sought to recover damages of approximately $30 million for the alleged negligent design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. This case has now been settled. ESD's obligation under the settlement agreement was $1,787,500.00, which has been paid. The County has discontinued all claims against ESD with prejudice and without costs.

Atlantic Yards Land Use Improvement and Civic Project

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

ESD filed its first condemnation petition in December 2009 to obtain title to certain private Phase I properties needed for the Project; ESD took title to such properties pursuant to court order in March 2010; and ESD obtained vacant possession of such properties in May 2010. The one remaining issue in this proceeding is the valuation of the last of the condemned properties: a former six-story building. The trial to determine the value of this building was concluded in 2016 and the judge has now issued a decision, which has been appealed by claimants. We are waiting for claimants to submit their brief.

Note 18 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Land Use Improvement and Civic Project, Continued

ESD filed its second condemnation petition in August 2014 to obtain title to Phase II properties needed for the Project. ESD took title to these properties pursuant to court order in September 2014 and ESD obtained vacant possession of the properties in May 2015. The value of each of the claims has been settled or otherwise determined by the Court and paid by the Project developer.

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

There are currently no pending litigations challenging Project approvals.

Erie Canal Harbor Development Corporation ("ECHDC")

In April 2012, ECHDC, a subsidiary of ESD, entered into the Inner Harbor Development Phase 3A-Canalside Public Canal Environmental Contract. The total contract price was not to exceed $19.784 million. In July 2013, ECHDC terminated the contractor due to the contractor's failure to properly and timely perform its obligations under the contract. The work was completed by the bonding company. The contractor brought one action in federal court (naming ECHDC and ESD, among others, as defendants) and multiple actions in State court challenging the termination and seeking an undisclosed amount of monetary relief. The federal action was dismissed in September 2017 and the plaintiff has no further appeal rights. All pending State court claims were consolidated into a single action and the bonding company was substituted as the real party-in-interest. The bonding company seeks relief for excess costs in completing the project in the approximate amount of $18 million. Discovery has concluded. Each of ECHDC and the bonding company has moved for summary judgment on several grounds. The case was transferred to a new judge and the outcome of the summary judgment motions is pending.

In April 2019, a new state court lawsuit was filed, naming ECHDC and ESD, among other defendants. ECHDC believes that the new suit is effectively a re-filing of the claims that plaintiffs initially raised in the dismissed federal court action. ECHDC believes that it has valid affirmative defenses to the suit and will vigorously defend against it. ECHDC will answer the Complaint in a timely fashion, or make the appropriate motion seeking dismissal of the claims.

Note 18 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation ("LMDC")

On August 31, 2004, LMDC took ownership of the parcel at 130 Liberty Street, an entire block that included a building formerly owned by Deutsche Bank badly damaged on September 11, 2001. LMDC undertook the acquisition, decontamination, and deconstruction of the building (the "Project") as a necessary step to the accomplishment of the objectives of the World Trade Center Memorial and Redevelopment Plan (the "Plan"). Decontamination and deconstruction were completed in February 2011. Soon thereafter, access to the parcel was granted to The Port Authority of New York and New Jersey for construction of subgrade components of the Vehicular Security Center and construction of a temporary public plaza, consistent with the Plan. LMDC received approval from the United States Department of Housing and Urban Development (HUD) to allocate Community Development Block Grant funds to the acquisition, abatement, deconstruction, and related efforts. In addition, pursuant to various settlement agreements, LMDC received funding for this Project from Deutsche Bank and Deutsche Bank's insurance carriers in the amount of $106.2 million.

The costs of the Project included general and trade contractors, LMDC's owner's representative, integrity monitoring, environmental review and testing, insurance policies, legal fees for transactions and litigation, and land use and environmental compliance. As of March 31, 2019, LMDC expended approximately $254 million of the allocated HUD funds on the Project, net of $42.5 million in recoveries from settlement agreements entered into between LMDC and its general contractor, Lend Lease (US) Construction LMB, Inc. in May 2015 and July 2018.

LMDC had been served with numerous lawsuits and notices of claims for alleged personal injuries suffered in connection with this Project, and accidents at other sites and projects in Lower Manhattan, including sites under the control of other public entities. These claims have been covered by indemnity obligations of, and/or insurance policies held by, the contractors or owners directly responsible for those sites, and/or, if necessary, by the LMDC's own insurance policies, subject to applicable deductibles. All such claims have been vigorously defended by LMDC or for LMDC by the indemnifying parties. It has been reported to LMDC that all personal injury claims have been settled without contribution by LMDC. From time to time in the ordinary course of LMDC's business, various actions or notices are asserted alleging LMDC's liability for a variety of matters in Lower Manhattan. LMDC defends itself against these claims (to the extent asserted in litigation) either through private outside counsel, the New York State Attorney General's Office, or third parties with indemnification obligations. Management believes that no such matters pending on March 31, 2019 will have a material adverse impact on LMDC's financial condition.

Note 18 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Contingencies related to LMDC at March 31, 2019 consist of the following:

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

(b) Letters of Credit and Credit Guarantees

ESD maintains two irrevocable letters of credit each of $76.3 million, with two banks. The letters of credit support variable rate demand notes issued in 2008. The transactions had no impact on the financial position of ESD.

(c) Construction

The Corporation has contracts in place for construction at several sites, which are in varying states of completion. The total value of contracts outstanding at March 2019 is approximately $1.9 billion.

(d) Lease Commitments

In June 2013, ESD entered into a lease with 633 Third TEI Equities LLC for five units consisting of the entire 33rd through 37th floors at 633 Third Avenue, New York, NY. The lease term commenced on July 1, 2013 and terminates on June 30, 2023. There is also a renewal provision of five years commencing July 1, 2023 and terminating June 30, 2028. Escalation provisions exist for both operating expenses and taxes (real estate, water consumption, sewer rents, rates and charges, county, transit or any other governmental charge of a similar nature).

Minimum lease payments to be paid under the lease agreement for each of the next five fiscal years as of March 31, 2019 are as follows (excluding escalations and option period) (in thousands):

2020	$ 7,020
2021	7,098
2022	7,124
2023	7,124
2024	1,782
TOTAL	$ 30,148

Note 19 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 83 - "Certain Asset Retirement Obligations." This Statement, issued in November 2016, addresses accounting and financial reporting for certain asset retirement obligations (AROs). Governments that have legal obligations to perform certain future asset retirement activities related to tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning April 1, 2019 for the Corporation. This Statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 84 - "Fiduciary Activities." This Statement, issued in January 2017, established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement is effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning April 1, 2019 for the Corporation. This Statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 87 - "Leases." This Statement, issued in June 2017, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019, which is the fiscal year beginning April 1, 2020 for the Corporation. Management is in process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of the Corporation.

GASB Statement No. 88 - "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements." This Statement, issued in April of 2018, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The provisions of this Statement are effective for reporting periods beginning after June 15, 2018, which is the fiscal year beginning April 1, 2019 for the Corporation. Management is in the process of evaluating the potential impact of this Statement on the consolidated financial statements of the Corporation.

Note 19 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 89 - “Accounting for Interest Cost Incurred before the End of a Construction Period.” This Statement, issued in June 2018, establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62 - “Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements” which are superseded by this Statement. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, which is the fiscal year beginning April 1, 2020 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of the Corporation.

GASB Statement No. 90 - “Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61.” This Statement, issued in August 2018, seeks to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and sets parameters as to whether a majority equity interest is to be reported as an investment or component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, which is the fiscal year beginning April 1, 2019 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of the Corporation.

GASB Statement No. 91 - “Conduit Debt Obligations.” This Statement, issued in May of 2019, requires a single method be used for the reporting of conduit debt obligations. The focus of the Statement is to improve financial reporting by eliminating diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020, which is the fiscal year beginning April 1, 2021 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of the Corporation.

Note 20 - Cumulative Effect of Change in Accounting Principle

For the year ended March 31, 2019, the Corporation implemented GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The implementation of this Statement resulted in the reporting of the entire actuarial accrued liability for other postemployment benefits. The Corporation's net position at March 31, 2018 has been restated as follows:

Net position at beginning of year, as previously stated	$ 2,677,010
GASB Statement No. 75 implementation:	
GASB Statement No. 45 total OPEB obligation reversal	44,657
Beginning total OPEB liability	(123,738)
Net position at beginning of year, as restated	$ 2,597,929

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Changes in Corporation's
Total OPEB Liability and Related Ratios
Year ended March 31, 2019

Total OPEB liability:	
Service cost	$ 6,503
Interest on total OPEB liability	5,012
Changes in assumptions	(654)
Benefit payments	(2,802)
Net change in total OPEB liability	8,059
Total OPEB liability - beginning	123,738
Total OPEB liability- ending	$ 131,797
Covered payroll	$ 28,136
Total OPEB liability as a percentage of covered payroll	468.4%

Notes to schedule:

Changes of assumptions - Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each

2019	3.92%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Corporation is presenting information for those years for which information is available.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Corporation's Proportionate Share of the Net Pension Liability
Year ended March 31, 2019

NYSERS Pension Plan (in thousands)					
	2019	2018	2017	2016	2015
Corporation's proportion of the net pension liability	0.0900706%	0.0892992%	0.0864938%	0.0882936%	0.0882936%
Corporation's proportionate share of the net pension liability	$ 2,907	8,391	13,883	2,983	3,989
Corporation's covered payroll	$ 26,991	26,913	25,802	25,039	23,312
Corporation's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	10.77%	31.18%	53.81%	11.91%	17.11%
Plan fiduciary net position as a percentage of the total pension liability	98.2%	94.7%	90.7%	97.9%	97.9%

The amounts presented for each fiscal year were determined as of the March 31, 2018, 2017, 2016 and 2015 measurement dates of the plans.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Corporation is presenting information for those years for which information is available.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Corporation's Employer Pension Contributions
Year ended March 31, 2019

NYSERS Pension Plan (in thousands)

	2019	2018	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 3,729	3,767	3,575	4,327	4,473	5,217	4,328	3,356
Contributions in relation to the contractually required contribution	3,729	3,767	3,575	4,327	4,473	5,217	4,328	3,356
Contribution deficiency (excess)	$ -	-	-	-	-	-	-	-
Corporation's covered payroll	$ 26,991	26,913	25,802	25,039	23,312	22,475	22,945	22,114
Contributions as a percentage of covered payroll	13.82%	14.00%	13.86%	17.28%	19.19%	23.21%	18.86%	15.18%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10 year trend is compiled, the Corporation is presenting information for those years for which information is available.

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

The Board of Directors
New York State Urban Development
Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, which comprise the consolidated statement of net position as of March 31, 2019, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated June 13, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

EFPR Group, CPAs, PLLC

Williamsville, New York
June 13, 2019

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INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
New York State Urban Development
Corporation:

Report on Investment Compliance

We have audited the New York State Urban Development Corporation and Subsidiaries' (the "Corporation"), a component unit of the State of New York, compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended March 31, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York.

Auditors' Responsibility

Our responsibility is to express an opinion on investment compliance based on our audit of the compliance requirements referred to above. 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. An audit includes 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 audit provides a reasonable basis for our opinion on investment compliance. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Investment Compliance

In our opinion, the New York Urban Development Corporation and Subsidiaries complied, in all material respects, with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York for the year ended March 31, 2019.

Other

In accordance with Government Auditing Standards, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws and regulations that have a material effect on the Corporation's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the subject matter. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our audit to express an opinion on whether the Corporation complied with the aforementioned requirements and not for the purpose of expressing an opinion on the internal control over compliance with those requirements or other matters; accordingly, we express no such opinion. The results of our tests disclosed no matters that are required to be reported under Government Auditing Standards.

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

EFPR Group, CPAs, PLLC

Williamsville, New York
June 13, 2019