NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

March 31, 2017 and 2016

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Table of Contents

* * * * * *

EFPR GROUP, CPAs PLLC

6390 Main Street, Suite 200
Williamsville, NY 14221

P 716.634.0700
TF 800.546.7556
F 716.634.0764
W EFPRgroup.com

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, 2017 and 2016, 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.

Auditor's 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 auditor's 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 net position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2017 and 2016, and the respective changes in net position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 19, the Schedule of Funding Progress - Other Postemployment Benefits - Last Three Years on page 69, the Schedule of Corporation's Proportionate Share of the Net Pension Liability on page 70, and the Schedule of Corporation's Employer Pension Contributions on page 71 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by Government 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 15, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control over financial reporting and compliance.

In accordance with Government Auditing Standards, we have also issued our report dated June 15, 2017 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. The purpose of that report is to provide an opinion as to the Corporation's compliance with investment guidelines contained therein. 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 15, 2017

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, 2017. 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 2017. 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 mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws.

To enhance ESD's business outreach and emphasize local priorities, New York's Regional Economic Development Council ("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 $880 million 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 Economic Development Councils ("Regional Councils"). Regional Council Capital Funds are allocated among 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 funding, allocated annually, that is awarded through a competitive Consolidated Funding Application review process.

During fiscal 2017, the ESD Directors and Chief Executive Officer ("CEO") approved financial assistance for over 340 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 Economic Development Purposes 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 $1.4 billion ESD investment leveraged an additional $2.7 billion in total investment, resulting in the retention and creation of over 32,000 jobs.

Economic Development Programs and Initiatives, Continued

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 Investment Development Plan focused on three sector strategies (advanced manufacturing, health and life sciences and tourism) and three core strategies of entrepreneurship, workforce and smart growth. Within each of the strategies, signature initiatives were developed that would leverage the region's assets and ultimately spur economic development in WNY. Most Buffalo Billion projects are not direct investments in individual companies, but are strategic investments in State assets that will ultimately attract private investment. Current projects include the Buffalo High Tech Manufacturing Innovation Hub at RiverBend; Buffalo Medical Innovation and Commercialization Hub at Buffalo Niagara Medical Campus; Robert Moses Parkway Redevelopment; Western New York Workforce Development Center; 43 North Business Plan Competition; and Better Buffalo Fund.

During fiscal 2017, Phase Two (2) and Three (3) awards of the $500 million New NY Broadband Program (the "Program") were announced. The Program's goal is to provide all New Yorkers with access to internet download speeds of at least 100 megabits per second (Mbps) in most places, and 25 Mbps in the most remote parts of the State by the end of 2018. Implemented in phases, and leveraging private sector investment, the Program allocates grant funds to qualified service providers through an innovative "reverse auction" method, awarding State dollars to those applicants who propose the lowest State cost to serve, on a dollar-per-location basis. The Program conducts regional auctions to ensure statewide coverage and gives priority to projects addressing unserved areas, libraries and Education Opportunity Centers.

Over the past six years New York State has helped small businesses secure over $1 billion in loans, 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. During fiscal 2017, ESD launched the $16 million Global New York Loan fund program which supports export financing in partnership with participating lenders that will allow New York State businesses to grow globally. ESD also continued to successfully support business through the Small Business Revolving Loan Fund, providing over $32 million in loans; the Capital Access Program issuing over $15 million in loans; the Linked Deposit Program providing nearly $40 million in loans; the Surety Bond Assistance Program issuing over $9 million in credits; and the Bridge to Success Loan Program, providing nearly $3 million in loans. In addition to the successful loan programs, ESD continued to assist entrepreneurs through the Entrepreneurial Assistance Program which provides courses and classes on 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. Since inception, over 5,000 mentors and entrepreneurs have enrolled and over 2,700 engagements have been initiated.

Economic Development Programs and Initiatives, Continued

ESD also continued managing the NYS Innovation Venture Capital Fund ("NYSIVCF" or the "Fund") which is currently funded at $100 million. 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 $8 million fund-of-funds investment program, which supports pre-seed investment opportunities throughout the State. During fiscal 2017, the Fund made five direct equity investments totaling $2.25 million and awarded $3 million to one investment manager 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.

During fiscal year 2016-17, the Market Order Program (the "Program") was transferred from the New York State Department of Agriculture and Markets ("DAM") to ESD. Market orders are voluntary programs that are initiated and approved by the industry to ensure the orderly marketing of products. Currently the Program has adopted regulations to enact market orders for milk, apples, sour cherry, cabbage and onions. These orders combined generate approximately $15 million in industry funds annually, which are used to market and promote the subject products, support market and production research and reimburse administrative costs of the Program. Because ESD has a robust marketing and advertising campaign throughout the State, the Program transfer to ESD was an attempt to coordinate the State's marketing efforts to more fully include marketing and promotion of New York State agricultural products. As part of the Program transfer, the existing market orders will continue, but financial administration of them has been transferred to ESD. DAM continues to be involved in all aspects of the Program and provides administration of the program and support to ESD through a contract between ESD and DAM. Existing market order contracts entered into by DAM to promote and research products have been assigned to ESD and will be renewed by ESD as necessary.

In addition to the above programs, 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; 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 is conducted on a monthly basis, as are media analytics, 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 of $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.

In fiscal year 2014, ESD began co-administering the START-UP NY ("SUNY Tax-free Areas to Revitalize and Transform Upstate NY") initiative which is expected to transform SUNY campuses and university communities across the State into tax-free communities, including no income tax for employees and no sales, property or business tax for ten (10) years. The program continued to grow in fiscal year 2017. START-UP NY attracts start-ups, new business, business expansions and investments from across the nation and around the globe to New York by offering the opportunity to operate completely tax-free, while also partnering with the world-class higher education institutions in the SUNY system, in return for creating net new jobs. Businesses participating in the program need to be aligned with or further the academic mission of the campus, college or university sponsoring the tax-free community, have positive community and economic benefits and create and maintain new jobs. To date approximately 82 campus plans have been approved, of which 43 have approved businesses participating in the program, and 229 businesses have been approved for participation in START-UP NY. These companies have committed to create over 4,800 jobs and invest over $227 million over the next five years.

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 ones are presented below.

Moynihan Station Development Corporation

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office ("Farley") building in fiscal 2007 as a part of the redevelopment of Moynihan Station. The U.S. Postal Service provided $130.0 million to assist in the acquisition. ESD financed $105.0 million to complete the transaction. The Port Authority of New York and New Jersey (the "Port Authority") provided funding of $30.0 million. Citibank also

Moynihan Station Development Corporation, Continued

provided a $75 million loan which was refinanced in fiscal years 2010, 2013 and 2015 and increased to $150 million. Interest was capitalized and ESD made three principal payments of $250,000 each over the two-year term that commenced in August, 2015. The 2015 financing agreement, which included an additional $37.2 million to be used for early action construction for Phase 2 of the project, was due to mature in February 2017. In January 2017, the term of the loan was extended to mature on November 2, 2017. At March 31, 2017, the remaining combined balance of this debt is $223.1 million. The Citibank loan was repaid in full on May 1, 2017.

During fiscal 2017, the Moynihan Station Development Corporation ("MSDC") has significantly progressed preliminary work necessary for the planned relocation of Amtrak intercity rail operations from existing Pennsylvania Station into a redeveloped James A. Farley Post Office Building. The project has been advanced in two distinct phases. Phase 1 has completed the commuter concourse for the new station, which hangs from underneath the Farley Building structure and will be accessible via new entrances through the northeast and southeast corners of the Farley Building. Phase 1 has also renovated the underground connection, called the Connecting Corridor, from this concourse to the 8th Avenue subway and the rest of Penn Station. These facilities will be opened for all customers of Penn Station in June 2017.

Phase 2 of the project will be the redevelopment of the historic landmarked Farley Building in order to accommodate relocated Amtrak operations and expanded Long Island Rail Road ("LIRR") passenger amenities. Additionally, an emergency platform ventilation system will be installed for the Penn Station boarding platform area below the Farley Building. In January 2016, an initiative commenced for the development of a commuter and intercity passenger railroad terminal to be known as the Empire Station Complex ("Empire Station"). This initiative includes Phase 2 of the Moynihan Station project and the redevelopment of the Farley Building. The Farley Building redevelopment includes the Moynihan Train Hall, new facilities in the Penn Station train-shed that will provide vertical circulation between the train hall and the train-shed's passenger platform and concourses, an emergency ventilation system to be installed in the train shed below the Farley Building, passenger and operations facilities for LIRR and Amtrak, permanent space for the United States Postal Service, and private commercial use (e.g., retail, office) development space. Amtrak will move most of its back-office and passenger-facing operations to Farley from Penn Station. The vacated space in Penn Station will be redeveloped by Amtrak for commercial uses.

To further the Moynihan Station initiative, ESD, the MTA, LIRR and Amtrak issued a Joint Solicitation for the Development of the Empire Station Complex (the "solicitation"). The solicitation consisted of (i) a request for expressions of interest and request for qualifications for the private redevelopment of Penn Station and (ii) a request for proposals for the private redevelopment of Farley, including (x) a new Moynihan Train Hall (a new railroad passenger train hall), that would serve LIRR and Amtrak passengers, new back-of-house and passenger facing operations for LIRR and Amtrak, (y) work in the Penn Station train-shed related to the Moynihan

Moynihan Station Development Corporation, Continued

Train Hall, and (z) private commercial space, including space leased to UPS for retail and operations use. The multiple submissions received for the solicitation for development of Empire Station 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 "joint venture"). Final negotiations between Empire State Development and the joint venture anticipate the execution of a master lease and a development agreement in early fiscal 2018. Additional information regarding MSDC is included in the "Anticipated Future Transactions and Information" section of this report.

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 $50.1 million and $45.8 million for the fiscal years ended March 31, 2017 and 2016, respectively. The construction related to the original expansion and renovation of the Javits Center was completed in 2014 and the cumulative total cost was $735.2 million at March 31, 2016.

In fiscal 2016, NYCCDC issued $632.1 million Revenue Refunding Bonds Series 2015 (Hotel Unit Fee Secured) for the purpose of (i) refunding NYCCDC's Revenue Bonds Series 2005 (Hotel Unit Fee Secured); (ii) paying certain costs of expanding and renovating the Javits Center; (iii) funding certain reserves; and (iv) paying for the costs of issuance. In fiscal 2017, 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.

While a major renovation of the existing facilities was completed in 2014, current operations and the ability to compete in the evolving convention center marketplace are challenged by a lack of meeting room space and truck parking. An expansion of the Javits Center is necessary to address these challenges so that the Javits Center can 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 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

New York Convention Center Development Corporation, Continued

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. Transformer construction has an approximate two-year schedule and $95 million budget. Expansion construction has an approximate four-year schedule and $1.3 billion budget. Funding will be provided through a $1 billion New York State budget appropriation and available bond proceeds. Other sources may be provided as required. Additional information regarding NYCCDC is included in the "Anticipated Future Transactions and Information" section of this report.

Lower Manhattan Development Corporation

New York State designated ESD as the lead agency in providing assistance to businesses affected by the events of September 11, 2001. The United States Department of Housing and Urban Development ("HUD") gave ESD the ability to draw grant funds of up to $700.0 million to fund these efforts. In November 2001, the 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, 2017, more than $3.1 billion of the total $3.5 billion in funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

Atlantic Yards Project

ESD continues to be actively involved in the Atlantic Yards Project, which consists of plans to redevelop twenty-two acres of underutilized land in downtown Brooklyn. The general project plan, adopted in July 2006 and modified in June 2009, includes an arena for the Brooklyn Nets, a reconfigured Vanderbilt yard and subway facility, an upgraded LIRR train yard, sixteen buildings for residential, office and retail uses, and a districtwide public middle school. The residential development will include an affordable component and eight acres of the site are planned for publicly-accessible open space. The developer, Forest City Ratner Companies ("FCR") has completed the arena and in December 2012, broke ground on the first residential tower. In October 2013, FCR entered into an agreement with Shanghai-based Greenland Group Co. to create a joint venture, Greenland Forest City Partners, to acquire and develop the Atlantic Yards Project.

At its June 27, 2014 meeting, the ESD Board of Directors affirmed the 2014 Modified General Project Plan ("MGPP") and authorized the creation of the Atlantic Yards Community Development Corporation ("AYCDC"), a subsidiary of ESD. The MGPP accelerates development and ensures the timely arrival of key project deliverables for the community and the creation of AYCDC is expected to facilitate continued progress of the project, which the joint venture rebranded as Pacific Park

Atlantic Yards Project, Continued

Brooklyn. In August 2015, the ESD Board of Directors approved proposed changes to the design for the Project's eight acres of open space. In April 2016, Greenland Forest City Partners, the Developer of the Atlantic Yard's project, released the housing lottery application for the 181 affordable units in the first residential tower, B2. The building, which will include fifty percent (50%) affordable housing, is open with a full temporary certificate of occupancy. There are currently four buildings under construction or open at the site (B2, B3, B11, B14).

Erie Canal Harbor Development Corporation

Erie Canal Harbor Development Corporation ("ECHDC") continues to be guided by its vision to revitalize Western New York's waterfront and restore economic growth to 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 of working to accomplish public/private partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. Noteworthy accomplishments during fiscal 2017 include: funding over 2,000 events and activities at Canalside bringing over 1 million visitors to Buffalo; groundbreaking of the Explore and More Children's Museum; continuing work with ESD and NYS Parks on the redevelopment of the outer Harbor lands, including the final portions that were transferred to ECHDC during fiscal 2016; completing construction on the public canal system on the site of the former Memorial Auditorium, which interpret the historic alignment of the original Erie Canal, as it terminated in downtown Buffalo; utilizing the Canals in the winter for skating and other events; and events and programming on the ECHDC owned Outer Harbor land.

USA Niagara Development Corporation

Also committed 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 the development strategy at USAN is simultaneously working on implementation of different types of projects (i.e., phases) with different 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 aspects of approximately 37 projects, and is actively working on ten other efforts in various stages of development, totaling over $559 million. These efforts range from downtown streetscape infrastructure projects to improve the setting for downtown investment to middle-range efforts to reconnect downtown to its waterfront and to begin sensible development on shovel-ready downtown sites. Over the last several years, USAN participated in five new hotel projects, which were recently completed/are under construction and one hotel renovation project.

Other examples of economic development and redevelopment include Harlem Community Development Corporation ("HCDC"), Queens West Development Corporation ("QWDC"), Fort Schuyler Management Corporation - RiverBend Park, New York Power Electronics Manufacturing Consortium and various Nano Utica initiatives.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2017 and 2016:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2017	2016
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 290,572	282,513
Other current assets	2,216,875	2,861,367
Total current assets	2,507,447	3,143,880
Non-current assets:		
Investment securities - restricted	17,320	20,601
Loans and leases receivable	100,597	116,595
Due from State of New York	12,181,463	10,691,335
Due from Port Authority of New York and New Jersey	82,010	103,454
Due from New York Job Development Authority	26,330	26,259
Real property and office equipment, net	2,005,307	1,919,318
Other assets	213,109	223,814
Total non-current assets	14,626,136	13,101,376
Total assets	17,133,583	16,245,256
Deferred outflows of resources	86,817	103,678
Liabilities		
Current liabilities	1,447,473	1,416,695
Non-current liabilities	13,243,431	12,394,653
Total liabilities	14,690,904	13,811,348
Deferred inflows of resources	343,444	377,866
Minority interest	159,176	161,438
Net position		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	47,109	106,218
Total restricted	244,663	303,772
Net investment in capital assets	1,782,213	1,694,510
Total net position	$ 2,026,876	1,998,282

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

	2017	2016
	(In thousands)	
Operating revenue:		
Interest and finance income from:		
Housing companies	$ 278	477
Nonresidential projects	10,841	9,764
Interest on revenue bonds	23,720	38,284
Hotel tax revenue	50,145	45,808
Reimbursed grants	101,324	141,848
Economic development grants	1,010,826	690,455
State appropriation for programs	3,500	18,352
Other revenue	107,237	92,803
Total operating revenue	1,307,871	1,037,791
Operating expenses:		
Interest related to corporate loans	6,272	6,291
Interest on revenue bonds	23,720	38,284
Interest on subsidiary project bonds	29,607	31,798
Reimbursed grants	14,483	37,478
Economic development grants	1,014,722	693,942
General and administrative	136,155	109,633
Subsidiary program and administrative	15,931	30,855
Pollution remediation	46	1,709
Provision for recoveries on loans and leases receivable and investments in other assets	7,020	10,921
Depreciation	36,566	36,618
Total operating expenses	1,284,522	997,529
Minority interest	2,262	5,033
Operating income	25,611	45,295
Non-operating revenue	567,494	571,069
Non-operating expenses	564,511	571,528
Change in net position	28,594	44,836
Net position at beginning of year, as previously stated	1,998,282	1,953,551
Cumulative effect of change in accounting principle	-	(105)
Net position at beginning of year, as restated	1,998,282	1,953,446
Net position at end of year	$ 2,026,876	1,998,282

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $290.6 million and $282.5 million at March 31, 2017 and 2016, respectively. The increase is primarily due to the receipt of $4.5 million in payments in lieu of sales tax for the Atlantic Yards Project. In addition, the increase is attributed to the receipt of higher payments related to non-residential and commercial leases.

Capitalization

As of March 31, 2017, ESD had $12.9 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds to engage in certain projects relating to financing of State Facilities, economic development activities, housing projects and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In March of 2017, ESD issued $1,842.7 million in State Personal Income Tax Revenue Bonds (General Purpose): $808.0 million Series 2017A and $1,034.7 million Series 2017B (Federally Taxable). The Series 2017A and 2017B bonds (the "Series 2017 Bonds") were issued for the purpose of financing Authorized Purposes, including to (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including information technology projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects, State facilities projects and environmental infrastructure projects, and (b) refund certain outstanding State Personal Income Tax Revenue Bonds previously issued by the Corporation and the New York State Housing Finance Agency. 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.

In March of 2016, ESD issued $1,654.9 million in State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A (the "Series 2016A Bonds") for the purpose of refunding certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation, the New York State Housing Finance Agency and the New York State Thruway Authority. In addition, proceeds of the Series 2016A Bonds were used to pay all or part of the cost of issuance of the Series 2016A Bonds.

In December of 2015, ESD issued $1,130.3 million in State Personal Income Tax Revenue Bonds (General Purpose): $893.4 million Series 2015A and $236.9 million Series 2015B (Federally Taxable). The Series 2015A and 2015B bonds (the "Series 2015 Bonds") were issued for the purpose of financing and refinancing Authorized Purposes, including (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects and State facilities projects, and (b) refund certain

Capitalization, Continued

outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation and the New York State Housing Finance Agency. In addition, proceeds of the Series 2015 Bonds were used to pay all or part of the cost of issuance of the Series 2015 Bonds.

In September of 2016, the New York Convention Center Development Corporation ("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 2016A and 2016B (the "Series 2016 Bonds") 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.

In August 2015, the NYCCDC issued $632.1 million Revenue Refunding Bonds Series 2015 (Hotel Unit Fee Secured) for the purpose of (i) refunding NYCCDC's Revenue Bonds Series 2005 (Hotel Unit Fee Secured), (ii) paying certain costs of expanding and renovating the Javits Center, (iii) funding certain reserves and (iv) paying the costs of issuance. These bonds will continue to be repaid from revenues received by NYCCDC from hotel unit fees imposed on certain hotel room rentals located in all five boroughs of New York City.

Interest Rate Transactions

During fiscal 2017 and 2016, there was no new activity with regard to the remaining $406.5 million interest rate swap agreements. The $182.5 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes), which also partially refunded the 2002B Bonds.

Under the swaps, the Corporation effectively converted terms of the underlying debt obligation from a variable to a fixed rate. Under the terms of the agreement, the Corporation pays a fixed rate of 3.578% to the related counter party and receives a variable rate equivalent to 65% of the 30-day 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 payments related to the swaps, no gains or losses will be recognized.

Interest Rate Transactions, Continued

The remaining $224.0 million interest rate swap agreements are in connection with the State Personal Income Tax Revenue Bonds, Series 2004A-3, with amortization ranging from 2025 to 2033. The Corporation receives a variable rate equivalent to 65% of the 30-day 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 payments related to the swaps, no gains or losses will be recognized.

The fair value of the swaps is recorded as a deferred inflow of resources and the related deferred loss is recorded as a deferred outflow of resources.

Investment Ratings

As of March 31, 2017, 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 2017A, 2017B	N/A	AAA	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, 2017 was $28.6 million compared with $44.8 million in the prior year. The $16.2 million decrease is primarily due to reductions in reimbursement revenue for several subsidiaries, including MSDC and LMDC.

Revenue

Operating revenue in the 2017 fiscal year was approximately $1,307.9 million compared with $1,037.8 million in fiscal year 2016. The increase of $270.1 million is primarily due to the following:

Increases in operating revenue primarily occurred in the following categories:

- Interest and finance income from nonresidential projects increased by $1.1 million due primarily to an increase in tax equivalency payments related to a project on Roosevelt Island;
- Hotel tax revenue increased by $4.3 million as a result of increased tourism in New York City;
- Economic development grants funding increased by $320.4 million due to an increase in activity within existing grant programs, including the following projects: Fort Schuyler Management-RiverBend Park, NY Power Electronics Manufacturing Consortium, and various Nano Utica initiatives; and
- Other revenues increased by approximately $14.4 million due to an increase of $17.5 million in the following revenue categories: funding for the State's worldwide advertising and marketing promotion campaign, activity in the New York Innovation Venture Capital Fund, bond income premium from the issuance of NYCCDC bonds, grant repayment income, funding for USA Niagara and tax credits received for Queens West Development Corporation, which was offset by a decrease of approximately $3.1 million due primarily to a reduction of payments in lieu of sales tax related to the One Bryant Park Project and a reduction in bond fee income.

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from housing companies decreased by approximately $0.2 million due to a decrease in required excess cash flow mortgage receipts;
- Interest on revenue bonds decreased by approximately $14.5 million due to the repayment and refunding of certain bonds;
- Reimbursed grants revenue decreased by $40.5 million due primarily to a decrease of $23.0 million in HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs and a decrease of $34.4 million in reimbursed revenue for MSDC, which was offset by increases in funds received for USA Niagara, the Farley Building project, the Atlantic Yards project and for other projects of approximately $16.9 million; and
- State appropriation for programs decreased by $14.9 million due to a decrease in economic development loan program activity.

Revenue, Continued

Non-operating revenue was approximately $567.5 million in fiscal 2017 compared to $571.0 million in fiscal 2016. The net decrease of $3.5 million is due primarily to a gain on the refinancing of debt service obligations related to the State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A in the prior year and the repayment of certain existing bonds offset by an increase in investment income earned on bond proceeds and subsidiary funds.

Expenses

Operating expenses in the fiscal year ended March 31, 2017 were approximately $1,284.5 million compared to $997.5 million in fiscal year 2016. The net increase of $287.0 million is primarily the result of the following:

Increases in operating expenses primarily occurred in the following categories:

- Economic development grants increased by $320.8 million due to an increase in activity within existing grant programs, including the following projects: Fort Schuyler Management-RiverBend Park, NY Power Electronics Manufacturing Consortium, and various Nano Utica initiatives; and
- General and administrative expenses increased by approximately $26.5 million due primarily to an increase in activity related to the New York State Innovation Venture Capital Fund, billing activity in the State's marketing and promotion program, and various professional services, including consultant and legal.

Decreases in operating expenses primarily occurred in the following categories:

- Interest on revenue bonds decreased by approximately $14.5 million due to the repayment and refunding of certain bonds;
- Interest on subsidiary project bonds decreased by approximately $2.2 million due to the repayment of debt obligations;
- Reimbursed grants expense decreased by $23.0 million due to a decrease in HUD grant funding to LMDC and ESD as a result of a decreased activity in existing programs;
- Subsidiary program and administrative expenses decreased by approximately $14.9 million due primarily to a reduction in bond issuance costs related to the prior year's NYCCDC bond issuance and non-depreciable capital expenditures of certain subsidiaries, including QWDC and ECHDC;
- Pollution remediation expense decreased by approximately $1.7 million due to a reduction in remediation activity;
- Provision for recoveries on loans and leases receivable and investment in other assets decreased by approximately $3.9 million due primarily to the recording of expenses associated with the dissolution of the Harriman Research and Technology Development Corporation in the prior fiscal year; and
- Depreciation decreased by approximately $0.1 million due primarily to a disposal of an asset.

Expenses, Continued

Non-operating expenses were approximately $564.5 million in fiscal 2017 compared to $571.5 million in fiscal year 2016. The decrease of $7.0 million is due primarily to the refunding of bonds related to the State Personal Income Tax Revenue Bonds (General Purpose) Series 2017A and Series 2017B.

Anticipated Future Transactions and Information

The following are anticipated to affect the Corporation subsequent to March 31, 2017:

- In April 2016, New York State passed legislation enabling NYCCDC to develop an expansion of the Javits Center under the design-build delivery method. Elements of the May 2016 Board-adopted modified General Project Plan are enumerated on page 9 of this report. After a thorough procurement process conforming to statutory prerequisites, on January 30, 2017, NYCCDC Directors authorized NYCCDC to enter into a design-build contract for the expansion with LendLease Turner, a joint venture. That contract was executed on February 9, 2017 and became effective on May 4, 2017, following approval by the New York State Attorney General and the State Comptroller. Design is underway, requisite demolition is expected to start by summer 2017, and construction is expected to begin by fall 2017. Expansion construction has an approximate four year schedule and an approximate $1.3 billion budget.
- As part of the redevelopment of Moynihan Station contemplated in fiscal 2007, ESD completed the purchase of the James A. Farley Post Office building. A portion of the financing included a $75 million three-year loan that was refinanced in fiscal year 2010, 2013 and 2015. The 2015 refinancing included an additional $37.2 million which continues to be used for early action construction for Phase 2 of the project. As a condition of the financing for the redevelopment of the Farley building into a railroad passenger station for Amtrak and mixed-use development, ESD was required to pay off the existing loan. To meet that requirement, on May 1, 2017, ESD prepaid the outstanding loan in the total amount of $150.8 million, including accrued interest.

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, 2017 and 2016

	2017	2016
	(In thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 83,198	65,352
Temporary investments	207,374	217,161
	290,572	282,513
Cash and investment securities restricted or designated for:		
Revenue bonds	790,005	1,815,354
Economic development	351,295	368,073
Subsidiary and other purposes	1,033,240	613,115
	2,174,540	2,796,542
Loans and leases receivable:		
Non-residential, principally leases	5,800	5,000
Economic development loans	1,181	2,929
	6,981	7,929
Due from State of New York	1,850	-
Due from Port Authority of New York and New Jersey	26,607	26,106
Other current assets	6,897	30,790
Total current assets	2,507,447	3,143,880
Investment securities restricted or designated for revenue bonds	17,320	20,601
Loans and leases receivable:		
Non-residential, principally leases	9,426	16,655
Economic development loans	91,171	99,940
	100,597	116,595
Due from State of New York	12,181,463	10,691,335
Due from Port Authority of New York and New Jersey	82,010	103,454
Due from New York Job Development Authority	26,330	26,259
Real property and office equipment, net	2,005,307	1,919,318
Other assets	213,109	223,814
Total non-current assets	14,626,136	13,101,376
Total assets	17,133,583	16,245,256
Deferred outflows of resources		
Deferred loss on derivative	69,969	97,401
Deferred loss on refunding	1,266	1,337
Pensions	12,008	613
Contributions subsequent to measurement date	3,574	4,327
Total deferred outflows of resources	86,817	103,678

(Continued)

See accompanying notes to consolidated financial statements.

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

	2017	2016
	(In thousands)	
Liabilities		
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Revenue bonds	$ 958,515	872,300
Project revenue bonds - New York Convention Center Development Corporation	10,580	4,015
Other financing	223,094	221,667
	1,192,189	1,097,982
Accounts payable and accrued expenses	102,049	144,163
Interest payable	61,482	79,828
Repayable to U.S. Department of Housing and Urban Development	-	10,000
Other current liabilities	91,753	84,722
Total current liabilities	1,447,473	1,416,695
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Revenue bonds	11,951,198	11,564,970
Project revenue bonds - New York Convention Center Development Corporation	1,126,110	694,711
Other financing	6,000	6,000
	13,083,308	12,265,681
Repayable to related governmental entities	725	3,573
Pollution remediation liability	5,458	10,262
Net pension liability - proportionate share - ERS	13,883	2,983
Other liabilities	140,057	112,154
Total non-current liabilities	13,243,431	12,394,653
Total liabilities	14,690,904	13,811,348
Commitments and contingencies (note 19)		
Deferred inflows of resources		
Fair market value of derivatives	69,969	97,401
Grants payable	193,507	189,824
Pensions	1,967	351
Other	78,001	90,290
	343,444	377,866
Minority interest	159,176	161,438
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	47,109	106,218
Total restricted	244,663	303,772
Net investment in capital assets	1,782,213	1,694,510
Total net position	$ 2,026,876	1,998,282

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, 2017 and 2016

		2017	2016
		(In thousands)	
Operating revenue:			
Interest and finance income from:			
Housing companies	$	278	477
Nonresidential projects		10,841	9,764
Interest on revenue bonds		23,720	38,284
Hotel tax revenue		50,145	45,808
Reimbursed grants		101,324	141,848
Economic development grants		1,010,826	690,455
State appropriation for programs		3,500	18,352
Other revenue		107,237	92,803
Total operating revenue		1,307,871	1,037,791
Operating expenses:			
Interest related to corporate loans		6,272	6,291
Interest on revenue bonds		23,720	38,284
Subsidiary project revenue bonds		29,607	31,798
Reimbursed grants		14,483	37,478
Economic development grants		1,014,722	693,942
General and administrative		136,155	109,633
Subsidiary program and administrative		15,931	30,855
Pollution remediation		46	1,709
Provision for payment on loans and leases receivable and investments in other assets		7,020	10,921
Depreciation		36,566	36,618
Total operating expenses		1,284,522	997,529
Minority interest		2,262	5,033
Operating income		25,611	45,295

(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

		2017	2016
		(In thousands)	
Non-operating revenue:			
State appropriations for interest on revenue bonds	$	558,911	567,479
Interest and finance income earned on investment of revenue bond proceeds		6,100	3,441
Other investment income, including change in fair value		2,483	149
Total non-operating revenue		567,494	571,069
Non-operating expenses - interest and other costs on revenue bonds		564,511	571,528
Non-operating income (loss)		2,983	(459)
Change in net position		28,594	44,836
Net position at beginning of year, as previously stated		1,998,282	1,953,551
Cumulative effect of change in accounting principle (note 18)		-	(105)
Net position at beginning of year, as restated		1,998,282	1,953,446
Net position at end of year	$	2,026,876	1,998,282

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2017 and 2016

	2017	2016
	(In thousands)	
Cash flows from operating activities:		
Interest and finance income received	$ 11,119	10,241
State appropriation received for interest on debt	23,720	38,284
Other operating receipts	107,237	92,803
Cash received from hotel tax revenue	56,847	45,755
Grants received	1,154,848	879,201
Interest payments on corporate purpose bonds	(2)	(21)
Interest payments on revenue bonds	(53,327)	(70,082)
Payments for general and administrative expenses	(197,355)	(110,869)
Grant payments	(1,026,623)	(768,640)
Payments for pollution remediation	(4,850)	(10,756)
Net cash provided by operating activities	71,614	105,916
Cash flows from non-capital financing activities:		
Retirement of other project revenue bonds	-	(293)
Increase (decrease) in other liabilities	22,645	(11,391)
Net cash provided by (used in) non-capital financing activities	22,645	(11,684)
Cash flows from capital financing activities:		
Bond proceeds - revenue bonds	1,842,665	2,785,245
Retirement of revenue bonds	(1,370,222)	(1,453,889)
Accrued interest payable on revenue bonds	(14,119)	665
Bond (payments) proceeds - New York Convention Center Development Corporation, net of issuing costs	433,810	(4,531)
Advances on behalf of State of New York for special projects	(1,491,978)	(1,413,855)
Payments of other financing	(501)	(502)
Net cash used in capital financing activities	(600,345)	(86,867)
Cash flows from investing activities:		
Proceeds from sales/maturities of investment securities	10,541,977	12,082,331
Purchase of investment securities	(9,906,907)	(12,070,687)
Investment income, net	2,983	(459)
Cash payments on behalf of the New York Job Development Authority	(71)	(26)

(Continued)

See accompanying notes to consolidated financial statements.

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

		2017	2016
		(In thousands)	
Cash flows from investing activities, continued:			
Payments received from projects financed by corporate revenue bonds	$	6,429	4,914
Collections (payments) on economic development loans		649	(10,925)
Net activity on economic development projects		1,427	13
Investment in real property and office equipment		(122,555)	(114,109)
Net cash provided by (used in) investing activities		523,932	(108,948)
Net increase (decrease) in cash and equivalents		17,846	(101,583)
Cash and equivalents at beginning of year		65,352	166,935
Cash and equivalents at end of year	$	83,198	65,352
Reconciliation of operating income to net cash provided by operating activities:			
Operating income		25,611	45,295
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense		36,566	36,618
Minority interest		(2,262)	(5,033)
Provision for payment on loans and leases receivable and investments in other assets		7,020	10,921
Cumulative effect of change in accounting principle		-	(105)
Changes in:			
Due from Port Authority of New York and New Jersey		21,444	20,158
Other current assets		23,893	28,411
Other assets		10,705	13,884
Deferred inflow - pensions		1,616	351
Accounts payable and accrued expenses		(42,114)	27,160
Grants payable		3,683	(30,719)
Interest payable		(2)	(21)
Repayable to U.S. Department of Housing and Urban Development		(10,000)	(30,000)
Pollution remediation liability		(4,804)	(9,047)
Net pension liability		10,900	2,983
Deferred outflow - pensions		(10,642)	(4,940)
Net cash provided by operating activities	$	71,614	105,916

See accompanying notes to consolidated financial statements.

Note 1 - Corporate Background and Activities

The New York State Urban Development Corporation ("ESD" 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, three of which are highlighted below:

(a) Economic Development and Job Creation

ESD is the State's primary agent for economic development with co-headquarters in Albany, Buffalo and New York City that are supported by a network of additional locations throughout the State. ESD works in partnership with the public and private sectors to create an environment that spurs innovation and economic development while enhancing New York State's competitive advantage as the world capital for many industries, ranging from finance and media to technology and agriculture. 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 mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance where appropriate, with certain local codes and laws. The financial assistance is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation which are disbursed to projects. 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.

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development and Job Creation, Continued

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

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary to assist in the economic recovery and revitalization of lower Manhattan. In 2001, LMDC received a direct grant of up to $2.783 billion from the United States Department of Housing and Urban Development ("HUD") and Federal Transportation Administration. Approximately $16.0 million and $35.0 million was received and disbursed during the years ended March 31, 2017 and 2016, respectively.

Additionally in 2001, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $0.5 million and $2.6 million was received and disbursed during the years ended March 31, 2017 and 2016, 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.

(b) State Special Projects

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

(c) Marketing

ESD markets New York, not only as a great place to do business, but as the perfect vacation destination. The Division of Marketing continues to administer and manage a robust marketing program to help drive economic impact. Marketing effectiveness research and media analytics are conducted on a regular basis to ensure marketing, job creation and economic impact goals are met. The Division of Motion Picture and Television Development markets the State to the film industry, providing production and business support for projects and companies while serving as a liaison between the industry, State agencies and regional governments.

Note 1 - Corporate Background and Activities, Continued

(d) Tax Abatement Programs

ESD administers several New York State Tax incentive programs which 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, consisting of many programs, including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities, are issued by ESD at the direction of the State. 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 2017 and 2016, ESD received from the State $1.441 billion and $1.312 billion, respectively.

Amounts received from the State were used to meet principal payments of $836.6 million and $734.8 million in fiscal 2017 and 2016, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2017 and 2016 ESD applied $41.6 million and $57.1 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

During fiscal 2017, at the direction of the New York State Division of the Budget, ESD received $40.8 million in advances for debt service obligations due throughout fiscal 2018 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." 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, 2017 and 2016, construction costs incurred in the amount of approximately $121.8 million and $113.6 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 distinguishes operating revenue and expenses from non-operating items in the preparation of its consolidated financial statements. Operating revenue and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. The principal operating revenues are earnings from economic development grants and loans, fees collected from the issuance of bonds, hotel tax collections, State appropriations for interest on revenue bonds where the Corporation's Board of Directors approves the disbursement of the funds, and grants from Federal, State and City agencies. The Corporation's operating expenses include project and program costs, 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 appropriations will be made beyond the current year to meet certain program, project and debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet ESD's obligations for fiscal 2018.

(l) Grants

ESD administers certain reimbursement grant funds from Federal, State and City agencies. Reimbursement grants are awarded for a specifically defined program/project fund and are generally administered such that ESD is reimbursed for any qualified expenditures made in relation 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 uses interest rate swap agreements to manage the impact of interest rates on its Service Contract Revenue Refunding 2008A bonds and its State Personal Income Tax Revenue Bonds, Series 2004A-3 bonds. Accounting standards require that an entity recognize the fair value of all derivative instruments as either 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. ESD is fully reimbursed by the State for all expenses related to revenue bonds. The fair value of the instruments is recorded either as deferred outflows of resources or deferred inflows of resources.

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: the Corporation is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Corporation is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Corporation voluntarily commences or legally obligates itself to commence remediation efforts; or the Corporation is named or there is evidence that the Corporation will be named in a lawsuit that compels participation in remediation activities.

(o) 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 related to pensions. This 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 second item is the Corporation contributions to the pension system subsequent to the measurement date. The third item is the deferred loss on derivative instruments discussed in note 2(m). The fourth 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.

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 four 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 fourth 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.

Note 2 - Summary of Significant Accounting Policies, Continued

(p) Accounting and Financial Reporting for Pensions

During the year ended March 31, 2016, the Corporation adopted the provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transitions for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68" (together "the Statements"). The primary objective of the Statements is to improve accounting and financial reporting by state and local governments for pensions. The implementation of the Statements requires the Corporation to report as an asset and/or liability its proportionate share of the collective pension asset and/or liability in the New York State Employees' Retirement System ("ERS"). The implementation of the Statements also requires the Corporation to report a deferred outflow and/or inflow for the effect of the net change in the Corporation's proportionate share of the collective net pension asset and/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. Also included as deferred outflows are the Corporation's contributions to the pension systems subsequent to the March 31, 2015 measurement date. See notes 17 and 18 for the impact of implementation on the consolidated financial statements.

(q) 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 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, 2017 and 2016, cash held in demand and custodial deposits, as well as cash equivalents were collateralized by the depository, 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):

	2017		2016	
	Carrying Amount	Bank balance	Carrying amount	Bank balance
Insured (FDIC)	$ 1,352	1,352	1,379	1,380
Uninsured - collateral held by custodian in ESD's name	299,731	303,968	350,942	350,980
Deposits held in trust for the Corporation's benefit	20,690	20,690	34,090	34,090
Total cash and cash equivalents	$ 321,773	326,010	386,411	386,450

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;
- 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, 2017 and 2016 consisted of the following (in thousands):

	2017		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,154,111	2,146,201	(7,910)
Restricted cash	253,033	253,033	-
Total	$ 2,407,144	2,399,234	(7,910)

Note 4 - Fair Value of Financial Instruments, Continued

	2016		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,711,056	2,703,737	(7,319)
Restricted cash	330,567	330,567	-
Total	$ 3,041,623	3,034,304	(7,319)

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 faire value measurement.

The Corporation holds financial instruments with quoted prices in active markets for identical assets (level 1) of $2,146,201 and $2,703,737 at March 31, 2017 and 2016, 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 $1,033.2 million and $613.1 million at March 31, 2017 and 2016, respectively. These amounts at March 31, 2017 and 2016 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2017	2016
Subsidiary/Programs/Purposes:		
42nd Street Development Project	$ 10,491	10,822
New York Empowerment Zone Corporation	7,868	11,014
Queens West Development Corporation	9,865	9,832
Harlem Community Development Corporation	6,037	5,638
Enterprise Community	34	34
USA Niagara Development Corp	10,031	12,006
Lower Manhattan Development Corporation	285	435
New York Convention Center Development Corporation	675,975	261,627
ESD Moynihan Station (James A. Farley Post Office Building)	26,779	13,174
ESD One Bryant Park	6,878	7,799
ESD Columbia SAC	2,073	483
ESD Erie Canal Harbor Development Corporation	24,320	23,973
ESD Privatization Program	1,019	819
Empire State New Market Corporation	1,613	1,533
ESD OPEB Liability Account	31,371	31,228
ESD Brooklyn Arena Project, ESD Atlantic Yard Project -Phase 1	2,629	63,540
ESD 125 Maiden Lane	63,581	261
ESD New York	3,067	3,067
ESD Project Repair Program	12,063	15,371
ESD Farley	15,274	33,589
ESD Marriot Marquis Purchase Option Fund	402	1,399
ESD TRAIL Remaining Fund	3,507	3,495
ESD Section 32 Remaining Fund	1,339	1,337
ESD Stadium Improvement Project	25	1,774
ESD Erie County Stadium Corporation Capital Improvement	4	2,944
ESD Arthur Kill Development Project	131	38
ESD Bronx Psychiatric Center Development Project	1,661	1,419
ESD Venture Atlantic Yard Project – Phase 2	524	615
Public Authority Control Board Authorized (including rent subsidy program in Lower Manhattan)	111,755	90,557
ESD Bayview Correctional Facility Project	789	823
Statewide Local Development Corporation	8	9
Other Purposes	1,842	2,460
Totals	$ 1,033,240	613,115

Note 5 - Loans and Leases Receivable

Nonresidential lease receivables, commercial lease receivables, real estate investments and economic development loans at March 31, 2017 and 2016 consist of the following (in thousands):

	2017		2016	
	Number	Balance	Number	Balance
Non-residential lease receivables, commercial lease receivables and real estate investments:				
Lease receivables (a)	4	$ 9,721	6	$ 14,533
Commercial leases (b)	4	4,174	4	5,696
Real estate investments (c)	10	1,331	10	1,426
	18	15,226	20	21,655
Economic development loans (d)	76	92,352	88	102,869
Total	94	107,578	108	124,524
Less current portion		(6,981)		(7,929)
Non-current portion		$ 100,597		$ 116,595

(a) Non-residential Lease Receivables

Non-residential lease receivables consist of 4 projects and 6 projects outstanding in 2017 and 2016, respectively, which were owned by ESD and leased to others. ESD recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2017, the remaining lease terms ranged from 1 to 8 years. There are 3 leases with the City of New York ($9.5 million) and 1 with a bank ($0.2 million). At March 31, 2017, 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”) due to the Corporation pursuant to ground leases on four Roosevelt Island housing projects, which include two non-subsidized, one subsidized, and one cooperative, totaling 2,141 units. Based on the existing TEP agreements, payments continue to the Corporation. The various ground lease terms range from one to thirteen years. The receivable balance of $4.2 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 range from 1 to 16 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 $49.2 million at March 31, 2017 and 2016.

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 of New York and New Jersey ("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, 2017, annual minimum payments to be received in each of the next four years is approximately $30.0 million per year. The net present value of the receivable balance at March 31, 2017 and 2016 amounted to $108.1 million and $129.1 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 2017 and 2016, the Port Authority made no additional payments to MSDC. The receivable balance at March 31, 2017 and 2016 amounted to $0.5 million.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2017 and 2016 consists of the following (in thousands):

	2017			
	Balance at March 31, 2016	Additions	Disposals	Balance at March 31, 2017
Land	$ 372,425	314	-	372,739
Buildings, improvements and construction in progress (incl. Farley)	1,597,486	89,911	-	1,687,397
Moynihan Station	323,179	31,543	-	354,722
Furniture and equipment	24,608	787	-	25,395
	2,317,698	122,555	-	2,440,253
Less accumulated depreciation	(398,380)	(36,566)	-	(434,946)
Totals	$ 1,919,318	85,989	-	2,005,307

Note 7 - Real Property and Office Equipment, Continued

	2016			
	Balance at March 31, 2015	Additions	Disposals	Balance at March 31, 2016
Land	$ 372,425	-	-	372,425
Buildings, improvements and construction in progress (incl. Farley)	1,563,646	33,842	(2)	1,597,486
Moynihan Station	243,424	79,755	-	323,179
Furniture and equipment	24,115	514	(21)	24,608
	2,203,610	114,111	(23)	2,317,698
Less accumulated depreciation	(361,783)	(36,618)	21	(398,380)
Totals	$ 1,841,827	77,493	(2)	1,919,318

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2017 and 2016 are as follows (in thousands):

	2015	Net increase (decrease)	2016	Net increase (decrease)	2017
New York Convention Center Development Corporation	$ 1,204,763	12,902	1,217,665	48,030	1,265,695
USA Niagara	17,808	190	17,998	4,346	22,344
James A. Farley Post Office Building and other ESD property	336,076	20,750	356,826	27,491	384,317
Other Subsidiaries	4,999	(2)	4,997	10,044	15,041
Total	$ 1,563,646	33,840	1,597,486	89,911	1,687,397

(b) James A. Farley Post Office Building

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

Initial deposits	$ 50,000	
At closing	50,000	plus certain Consumer Price Index Adjustments
At June 30, 2007	45,000	plus certain Consumer Price Index Adjustments
At June 30, 2008	30,000	plus certain Consumer Price Index Adjustments
	175,000	
Deferred purchase price	55,000	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 (see note 12) to complete the acquisition.

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

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

In fiscal 2013, the $91.8 million loan was refinanced for an additional term of two years for a total of $101.0 million (including capitalized interest).

In fiscal 2015, the $101.0 million loan was refinanced for an additional term of two years for a total of $150.0 million (including capitalized interest). The $150.0 million loan included new money proceeds of $37.2 million to fund a portion of the costs of the on-going Farley construction project. During fiscal year 2016, ESD made two principal payments of $250,000 each. Interest continued to be capitalized and, in fiscal 2017, ESD made an additional principal payment of $250,000. In January 2017, the term of the loan with a current outstanding principal balance of $149.25 million was extended to mature on November 1, 2017.

In April 2017, the New York State budget provided a $700.0 million appropriation for the Moynihan Station Development project, a portion of which is to be used to prepay the loan that encumbers the Farley Building. The loan, in the total amount of $150.8 million, including accrued interest, was prepaid on May 1, 2017.

(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.

Note 7 - Real Property and Office Equipment, Continued

(d) Depreciation

Depreciation expense for the years ended March 31, 2017 and 2016 amounted to $36.6 million.

Note 8 - Other Assets

Other assets at March 31, 2017 and 2016 consist of the following (in thousands):

	2017	2016
Interest receivable	$ (1,513)	(1,513)
Receivable from municipalities, other authorities and others	90,736	102,397
Receivable from HUD - LMDC grant	3,317	18,548
Hotel tax receivable	4,737	11,439
Prepaid insurance	2,793	516
Reserve for commercial real estate projects	111,437	111,312
Other	8,499	11,905
	220,006	254,604
Less current portion	(6,897)	(30,790)
Non-current portion	$ 213,109	223,814

Note 9 - Postemployment Benefits Other Than Pensions

The Corporation follows the accounting and disclosure requirements of GASB Statement No. 45, - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

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.

Note 9 - Postemployment Benefits Other Than Pensions, Continued

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. Total expenditures charged to operations for the years ended March 31, 2017 and 2016 amounted to $7.0 million and $6.7 million, respectively, of which the Corporation paid $2.4 million and $2.2 million, respectively. At March 31, 2017 and 2016, the liability for postemployment benefits other than pensions amounted to $38.8 million and $34.2 million, respectively.

The number of participants as of March 31, 2017 and 2016 was as follows:

	2017	2016
Active employees	310	258
Retired employees	194	176
Total	504	434

Funding Policy - For the years ended March 31, 2017 and 2016, the Corporation paid for postemployment health care benefits on a pay-as-you-go basis. The Corporation established a plan and began funding the liability during the fiscal year ended March 31, 2009.

Annual Other Postemployment Benefit Cost ("OPEB") - For each of the years ended March 31, 2017 and 2016, the Corporation's annual OPEB cost amounted to $7.0 million and $6.7 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2017	2016
Actuarial accrued liability ("AAL"):		
Active employees	$ 41,811	39,608
Retired employees	46,285	43,846
Total	$ 88,096	83,454
Underfunded actuarial accrued liability ("UAAL")	$ 88,096	83,454
Normal cost at beginning of year	$ 3,104	2,986

Level Dollar Amortization

Calculation of ARC under projected Unit Credit Method:

Amortization of UAAL over 30 years with interest to end of year	$ 3,832	3,630
Normal costs with interest to end of year	3,155	3,031
Annual required contribution ("ARC")	$ 6,987	6,661

Note 9 - Postemployment Benefits Other Than Pensions, Continued

	2017	2016
Annual OPEB Cost Contribution		
Contribution for the year	$ 2,422	2,187
Contribution as a percentage of required contribution	34.7%	32.8%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 6,987	6,661
Contribution made on a pay-as-you-go basis	(2,422)	(2,187)
Increase in net OPEB obligation	4,565	4,474
Net OPEB obligation at beginning of year	34,231	29,757
Net OPEB obligation at end of year	$ 38,796	34,231

Actuarial methods and assumptions:

Funding interest rate	4.5%
Trend rate (medical and drugs)	5.9% declining to 3.9%
Ultimate trend rate (medical and drugs)	3.9%
Year ultimate trend rate realized	2078
Annual payroll growth rate	2.5%
Actuarial cost method	Projected Unit Credit Method
The remaining amortization period at March 31, 2017	20 years

Note 10 - Revenue Bonds

At March 31, 2017 and 2016, ESD's outstanding revenue bonds were as follows (in thousands):

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances 2017	Balances 2016	Coupon rates (%)	Maturity dates
State Facilities and Equipment				
2004 Series A-2	$ 259,790	290,840	5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2007 Series B	8,445	15,815	5.00	2027
2007 Series C	15,725	23,235	4.00 - 5.00	2027
2009 Series B-1	40,865	351,635	4.00 - 5.00	2028
2009 Series B-2 (Taxable)	15,005	29,105	6.45	2018
Economic Development and Housing				
2007 Series A	-	3,645	3.75	2017
2008 Series A-1	20,295	122,425	4.00 - 5.00	2017
2008 Series A-2 (Taxable)	4,125	8,065	4.86	2017
2009 Series A-1	39,860	188,935	5.00	2018
2009 Series A-2 (Taxable)	32,970	47,960	6.50	2018
General Purpose				
2009 Series C	369,850	446,600	3.00 - 5.00	2022
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	214,415	283,540	3.00 - 5.00	2020
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	431,535	450,180	3.50 - 5.00	2041
2011 Series B (Taxable)	70,335	87,065	2.00 - 2.79	2021
2013 Series A-1	572,390	572,390	3.50 - 5.00	2043
2013 Series A-2	66,205	66,205	2.00 - 5.00	2026
2013 Series B (Taxable)	63,980	98,315	1.35 - 1.75	2019
2013 Series C	675,320	702,505	5.00	2033
2013 Series D	434,110	449,195	5.00	2025
2013 Series E	740,340	765,455	5.00	2043
2013 Series F (Taxable)	270,105	312,255	1.65 - 3.45	2023
2014 Series A	875,985	909,990	5.00	2044
2014 Series B (Taxable)	288,130	329,605	1.44 - 3.08	2024
2015 Series A	858,670	893,455	5.00	2045

(Continued)

Note 10 - Revenue Bonds, Continued

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
General Purpose	2017	2016	rates (%)	dates
2015 Series B (Taxable)	$ 182,885	236,860	1.38 - 2.17	2021
2016 Series A	1,654,930	1,654,930	2.00 - 5.00	2038
2017 Series A	807,960	-	3.50 - 5.00	2047
2017 Series B (Taxable)	1,034,705	-	2.10 - 3.42	2028
Total Personal Income Tax Revenue Bonds	11,337,320	10,628,595		
(b) University Facilities				
Columbia University 1989 Series (Taxable)	13,342	17,488	zero coupon	2020
Cornell University 1989 Series (Taxable)	1,786	2,342	zero coupon	2020
Clarkson University - Loan 1995 Series	2,760	3,585	5.50	2020
Syracuse University - Loan 1995 Series	-	2,515	5.50	2017
University Facilities Grants 1995 Series	5,090	6,490	5.50 - 5.88	2021
Total University Facilities Issues	22,978	32,420		
(c) State Office Facilities				
State Office Facilities 1995 Refunding Series	71,910	87,535	5.70	2021
(d) Service Contract Refunding				
2007 Series A	168,200	190,400	4.00 - 5.25	2029
2008 Series A	182,460	200,000	Variable note	2030
2008 Series B	402,315	439,425	4.125 - 5.25	2030
2008 Series C	110,630	121,235	3.875 - 5.00	2030
2008 Series D	354,950	412,045	5.25 - 5.63	2028
2010 Series A	253,820	314,295	2.00 - 4.00	2022
2010 Series B	-	4,645	4.00	2017
2011 Series A	5,130	6,675	2.00 - 4.00	2020
Total Service Contract Refunding	1,477,505	1,688,720		
Total all issues	12,909,713	12,437,270		
Less current portion	(958,515)	(872,300)		
Total non-current revenue bonds	$ 11,951,198	11,564,970		

(Continued)

Note 10 - Revenue Bonds, Continued

A summary of changes in outstanding revenue bonds at March 31, 2017 and 2016 is as follows:

	2016	Increases	Decreases	2017
Personal Income Tax Revenue Bonds	$ 10,628,595	1,842,665	(1,133,940)	11,337,320
University Facilities	32,420	-	(9,442)	22,978
State Office Facilities	87,535	-	(15,625)	71,910
Service Contract Refunding	1,688,720	-	(211,215)	1,477,505
Total	$ 12,437,270	1,842,665	(1,370,222)	12,909,713

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 payments for debt service (principal and interest) on the bonds and related expenses. Therefore, the financing of all revenue bonds is not expected to result in any net revenue or expense to 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, 2017 and 2016 are as follows (in thousands):

	2017	2016
Due from State of New York	$ 12,183,313	10,691,335
Debt service reserve	17,320	20,601
Cash and investments	790,005	1,815,354
Less accrued interest payable	(47,069)	(61,188)
Less other	(33,856)	(28,832)
Bonds payable	$ 12,909,713	12,437,270

Note 10 - Revenue Bonds, Continued

New York State Special Project Revenue Bonds - Defeasance

As of March 31, 2017 and 2016, $883.7 million and $601.1 million, respectively, remained outstanding and are considered to be defeased.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2017A & 2017B (Federally Taxable)

In March of 2017, ESD issued $1,842.7 million in State Personal Income Tax Revenue Bonds (General Purpose): $808.0 million Series 2017A and $1,034.7 million Series 2017B (Federally Taxable). The Series 2017A and 2017B bonds (the "Series 2017 Bonds") were issued for the purpose of financing Authorized Purposes and proceeds are expected to be used to (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including information technology projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects, State facilities projects and environmental infrastructure projects, and (b) refund certain outstanding State Personal Income Tax Revenue Bonds previously issued by the Corporation and the New York State Housing Finance Agency. 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.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A

In March of 2016, ESD issued $1,654.9 million in State Personal Income Tax Revenue Bonds (General Purpose) Series 2016A (the "Series 2016A Bonds") for the purpose of refunding certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation, the New York State Housing Finance Agency and the New York State Thruway Authority. In addition, proceeds of the Series 2016A Bonds were used to pay all or part of the cost of issuance of the Series 2016A Bonds.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2015A & 2015B (Federally Taxable)

In December of 2015, ESD issued $1,130.3 million in State Personal Income Tax Revenue Bonds (General Purpose): $893.4 million Series 2015A and $236.9 million Series 2015B (Federally Taxable). The Series 2015A and 2015B bonds (the "Series 2015 Bonds") were issued for the purpose of financing and refinancing Authorized Purposes, including (a) finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing assistance projects and programs, economic development projects and State facilities projects, and (b) refund certain outstanding State Personal Income Tax Revenue Bonds and other State-supported debt previously issued by the Corporation and the New York State Housing Finance Agency. In addition, proceeds of the Series 2015 Bonds were used to pay all or part of the cost of issuance of the Series 2015 Bonds.

Note 10 - Revenue Bonds, Continued

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2017 are as follows (in thousands):

	Principal	Interest (a)	Total
2018	$ 958,515	540,519	1,499,034
2019	977,260	505,626	1,482,886
2020	1,041,900	468,221	1,510,121
2021	1,072,330	426,043	1,498,373
2022	930,645	381,056	1,311,701
	$ 4,980,650	2,321,465	7,302,115

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2022 are approximately $7.9 billion.

Interest Rate Transactions

During fiscal 2017 and 2016, there was no new activity related to the remaining $406.5 million interest rate swap agreements. The $182.5 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes), which also partially refunded the 2002B Bonds.

Under the swaps, the Corporation effectively converted terms of the underlying debt obligation from a variable to a fixed rate. Under the terms of the agreement, the Corporation pays a fixed rate of 3.578% to the related counter party and receives a variable rate equivalent to 65% of the 30-day 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 payments related to the swaps, no gains or losses will be recognized.

Note 10 - Revenue Bonds, Continued

Interest Rate Transactions, Continued

The remaining $224.0 million interest rate swap agreements are in connection with the State Personal Income Tax Revenue Bonds, Series 2004A-3, with amortization ranging from 2025 to 2033. The Corporation receives a variable rate equivalent to 65% of the 30-day 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 payments related to the swaps, 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) (the “Series 2016 Bonds”): $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 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.

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

As of March 31, 2017 and 2016, NYCCDC's outstanding Revenue Bonds were as follows (in thousands):

2016A and B Revenue Bonds	Balances 2017	Balances 2016	Coupon rates (%)	Remaining payments to
Serial	$ 36,005		2.75 - 5.00	2018 - 2056
Term	4,390	-	5.00	2041
Term	45,475	-	5.00	2046
Capital Apprec.	344,191	-	Zero Cpn	2056
	430,061	-		
Unamortized bond premium	17,639	-		
	$ 447,700	-		

2015 Revenue Bonds	Balances 2017	Balances 2016	Coupon rates (%)	Remaining payments to
Serial	$ 330,905	334,920	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
	628,060	632,075		
Unamortized bond premium	60,930	66,651		
	$ 688,990	698,726		

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 may commence in 2026 at 100%.

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

Annual principal maturities and interest obligations for the next five years following March 31, 2017 are as follows (in thousands):

	Principal	Interest	Total
2018	$ 10,580	33,708	44,288
2019	11,935	33,372	45,307
2020	13,530	32,826	46,356
2021	15,230	32,172	47,402
2022	16,525	31,435	47,960
	$ 67,800	163,513	231,313

Aggregate principal maturities subsequent to 2022 are approximately $990.3 million.

Note 12 - Other Financing

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

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

In January 2013, the second note of $91.8 million was repaid by the issuance of a third note for $101.0 million, which required semi-annual payments of interest at the rate of 4.0% per annum and three principal payments of $250,000 over the two-year term that commenced in August 2013. The remaining principal, together with all accrued but unpaid interest was due February 2015.

In February 2015, the third note of $101.0 million was repaid by the issuance of a fourth note for $150.0 million, which included a new money component and required semi-annual payments of interest at a rate of 4.2% per annum and three principal payments of $250,000 over the two-year term that commenced in August 2015. The remaining principal, together with all accrued, but unpaid interest, was due February 2017. In January 2017, the term of the fourth note with a current outstanding principal balance of $149.25 million was extended to mature on November 1, 2017.

Note 12 - Other Financing, Continued

In April 2017, the New York State budget provided a $700.0 million appropriation for the Moynihyan Station Development project, a portion of which is to be used to prepay the note that encumbers the Farley Building. The loan, in the total amount of $150.8 million, including accrued interest, was prepaid on May 1, 2017.

Pursuant to a June 18, 2010 agreement between MSDC and the Port Authority, MSDC received $6.0 million from the Port Authority to advance the Moynihan Station project. Under this agreement, the Port Authority can provide up to a maximum of $6.7 million in funding and MSDC shall have reimbursed the Port Authority no later than April 1, 2015 from eligible monies as described more fully in the funding agreement. There is currently an extension of this agreement being coordinated with the Port Authority to extend the reimbursement date to April 1, 2018.

Note 13 - Pollution Remediation Obligations

In the years ended March 31, 2017 and 2016, the Corporation recognized pollution remediation expense provisions of $0.05 million and $1.7 million, respectively, and the corresponding liability was adjusted in the statements of net position. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of March 31, 2017 and 2016, the pollution remediation liability totaled $5.5 million and $10.3 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, removal of other hazardous materials and soil contamination.

Note 14 - Other Liabilities

Other liabilities at March 31, 2017 and 2016 consist of the following (in thousands):

	2016	Increases	Decreases	2017
Restricted funds for grants, economic development programs and special projects/bonds	$ 106,322	29,039	-	135,361
Other loan and revolving loan programs - advances from State	413	-	-	413
Postemployment benefits other than pensions	34,231	4,565	-	38,796
Other accruals	55,910	1,330	-	57,240
Totals	196,876	34,934	-	231,810
Less current portion	(84,722)			(91,753)
Non-current portion	$ 112,154			$ 140,057

Note 15 - Deferred Inflows of Resources - Other

Deferred inflows of resources - other at March 31, 2017 and 2016 consist of the following (in thousands):

	2016	Increases	Decreases	2017
Restricted funds for grants, economic development programs and special projects/bonds	$ 11,668	55	-	11,723
Deferred gain on ground lease deposit (a)	2,483	-	-	2,483
Other loan and revolving loan programs - advances from State	1,754	-	-	1,754
Other accruals (b)	74,385	-	(12,344)	62,041
Totals	$ 90,290	55	(12,344)	78,001

(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, 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 in this agreement. No advances were received in fiscal 2017.

(b) The Corporation, through its subsidiary, Erie Canal Harbor Development Corporation ("ECHDC"), entered in 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, 2017 is $56.4 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 creating a total amount repayable of $360.7 million. Since 1978, ESD has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2017 and 2016 amounted to $197.6 million.

Note 16 - Appropriations Repayable Under Prescribed Conditions, Continued

The “prescribed conditions” for repayment require that at no time shall the Director of the Budget of the State of New York (“Director”) request repayment of an amount greater than the excess of 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 2017 and 2016. No payments are anticipated during 2018.

It is also anticipated that the $26.3 million due from JDA for reimbursement to ESD for administrative expenses incurred on behalf of JDA as of March 31, 2017 ($26.3 million as of March 31, 2016), 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-two fiscal years, is $7.5 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 employees. The coverage is provided to former employees at a shared rate. It is administered through the New York State Department of Civil Service Employee Benefits Division. Full-time employees who are vested and choose to terminate employment or who retire and draw a pension from the New York State and Local Employees’ Retirement System (“ERS” or the “System”) are eligible for this benefit.

Note 17 - Retirement Plans, Continued

(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.

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
2017	$ 3,575
2016	4,327
2015	4,473

Note 17 - Retirement Plans, Continued

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

At March 31, 2017 and 2016, 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, 2016 and 2015. 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).

Actuarial valuation date	3/31/2016	3/31/2015
Net pension liability	$ 13,883	2,983
Corporation's proportion of the Plan's net pension liability	.0864938%	.0882936%

For the years ended March 31, 2017 and 2016, ESD recognized pension expense of $5.4 million and $2.6 million, respectively, for ERS. At March 31, 2017 and 2016, ESD's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	March 31, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 70	1,645
Changes in assumptions	3,702	-
Net difference between projected and actual earnings on pension plan investments	8,236	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	-	322
Corporation's contributions subsequent to the March 31, 2016 measurement date	3,574	-
Total	$ 15,582	1,967

Note 17 - Retirement Plans, Continued

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

	March 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 95	-
Net difference between projected and actual earnings on pension plan investments	518	-
Changes in proportion and differences between the Corporation's contributions and proportionate share of contributions	-	351
Corporation's contributions subsequent to the March 31, 2015 measurement date	4,327	-
Total	$ 4,940	351

ESD contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended March 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended	ERS
2017	$ 2,526
2018	2,526
2019	2,526
2020	2,463
2021	-
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, 2016
Actuarial valuation date	April 1, 2015
Interest rate	7.0%
Salary scale	3.8% Average
Decrement tables	April 1, 2010 - March 31, 2015 System's Experience
Inflation rate	2.5%

Note 17 - Retirement Plans, Continued

(d) Actuarial Assumptions, Continued

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, 2015 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 below:

Measurement date	March 31, 2016
Asset type:	
Domestic equity	7.30%
International equity	8.55%
Private equity	11.00%
Real estate	8.25%
Absolute return strategies	6.75%
Opportunistic portfolio	8.60%
Real assets	8.65%
Bonds and mortgages	4.00%
Cash	2.25%
Inflation - indexed bonds	4.00%

(e) Discount Rate

The discount rate used to calculate the total pension liability as of the March 31, 2016 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.

Note 17 - Retirement Plans, Continued

(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	$ 31,304	13,883	(838)

(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	3/31/2016	3/31/2015
Employers' total pension liability	$(172,303)	(164,592)
Plan net position	156,253	161,213
Employers' net pension liability	$ (16,050)	(3,379)
Ratio of plan net position to the Employers' total pension liability	90.7%	97.9%

(h) Contributions to the Pension Plan

Employer contributions are paid annually based on the System's fiscal year which ends on March 31st. Retirement contributions as of March 31, 2017 and 2016 represent the projected employer contributions for the period of April 1, 2016 through March 31, 2017 and April 1, 2015 through March 31, 2016, 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).

Note 17 - Retirement Plans, Continued

(i) New York State Voluntary Defined Contribution Program, Continued

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, 2017 and 2016, there were 31 and 27 ESD employees enrolled in the VDC program, respectively.

Note 18 - Cumulative Effect of Change in Accounting Principle

During the year ended March 31, 2016, the Corporation implemented GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment to GASB Statement No. 27" and GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment to GASB Statement No. 68." The implementation of these statements resulted in the reporting of deferred outflows of resources and a liability related to ESD's participation in ERS. ESD's net position at April 1, 2015 has been restated as follows:

Net position at beginning of year, as previously stated	$ 1,953,551
GASB Statement No. 68 implementation:	
Beginning System liability - Employees' Retirement System as of March 31, 2015	(3,989)
Beginning deferred outflow of resources resulting from:	
Differences between expected and actual experience	
Contributions subsequent to the measurement date	3,884
Cumulative effect of implementation	(105)
Net position at beginning of year, as restated	$ 1,953,446

Note 19 - Commitments and Contingencies

Commitments and contingencies at March 31, 2017 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 and condemnation proceedings. 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 April 2012, Erie Canal Harbor Development Corporation ("ECHDC"), a subsidiary of ESD, entered into the Inner Harbor Phase 3A-Canalside Public Canal Environment Contract. The total contract price, as that term is defined in the contract, is not to exceed $19.784 million. ECHDC received numerous Notices of Claim from the contractor under this contract, related to various aspects of the contract scope and performance requirements. Effective July of 2013, ECHDC terminated the contractor due to the contractor's failure to properly perform under the terms of the contract. The work has been completed by the bonding company. The contractor has brought multiple actions in State and federal court challenging the termination and seeking an undisclosed amount of monetary relief as a result of the termination and its claims for additional work under the terms of the contract. Since the original lawsuit was commenced, the bonding company has intervened in the State lawsuits and raised additional claims for work completed after termination of the contractor. The action is currently in the discovery phase with a trial date set for October of 2018.

Of note is potential exposure arising from a lawsuit filed in Nassau County against a number of entities, including ESD. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County, Hon. Vito M. DeStefano, JSC), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately $20 million for the alleged negligent design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. The County asserts causes of action against ESD, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project contractors for negligence, breach of contract,

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, ESD agreed to indemnify DASNY from project-related liabilities. ESD and DASNY are being defended in this lawsuit by the Office of the New York State Attorney General. ESD and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. Discovery proceedings are continuing. To date, settlement discussions and mediation efforts have resolved four of the six causes of action against ESD, without any payment of damages by ESD. Two of the four resolved causes of action relate to the return of unspent county funds held by ESD, which ESD has released to the County; the other two are tort claims, which the County has agreed to discontinue with prejudice.

ESD has moved to dismiss the remaining two causes of action, for breach of contract, on legal grounds. By decision and order dated March 30, 2015, Justice DeStefano issued a Decision and Order dismissing the County's claim against ESD. However, the Judge declined to dismiss plaintiff's breach of contract claim against DASNY. Under its agreement with DASNY, ESD is bound to indemnify DASNY against all liability and costs, so effectively the action could still result in payment by ESD. DASNY and ESD have appealed the decision on DASNY's potential liability seeking to have that decision overturned by the Appellate Division, Second Department. The County appealed the decision dismissing the claims against ESD. In the meantime, discovery in the trial court continues. No prediction can be made as to when a decision on the appeals may be rendered and no assessment can be made of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss. To date, no oral argument on the appeals, which have been pending for almost 2 years, has yet been scheduled.

Canrock Innovate NY Fund L.P. is a limited partnership that made equity investments in five early stage tech companies. Innovate NY Fund L.P. is a limited partnership in which ESD is a limited partner. Innovate NY Fund L.P. is the sole limited partner in Canrock Innovate NY Fund L.P. ESD funded Innovate NY Fund L.P. with Federal State Small Business Credit Initiative ("SSBCI") funds that were used to fund the investments made in the five companies by Canrock Innovate NY Fund L.P. It appears that CVC Partners Innovate IV NY LLC, the General Partner in Canrock Innovate NY Fund L.P., had conflicts of interest with respect to its investments in four of the five companies due to prior interests of affiliates and principals of CVC Partners Innovate IV NY LLC in those companies. CVC Partners Innovate IV NY LLC failed to disclose to Innovate NY Fund L.P these conflicts of interest and to seek the prior authorization (of Innovate NY Fund L.P., the ESD-affiliated limited partner) to invest in those companies as required by the limited partnership agreement. United State Treasury ("Treasury"), the SSBCI program administrator, has determined that there was no misuse of the SSBCI funds by ESD in connection with these four investments.

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Brooklyn Bridge Park

ESD subsidiary Brooklyn Bridge Park Development Corporation ("BBPDC") is one of a number of respondents in three Article 78 proceedings seeking judicial review of City and State approval of development projects at Brooklyn Bridge Park (the "Park"). BBPDC owns the land on which the Park has been constructed, and leases all of its land under a 99-year ground lease to Brooklyn Bridge Park Corporation ("BBPC"), a New York City not-for-profit corporation that is solely responsible for the development and management of the Park. Management believes these proceedings, and any liability that might result therefrom, to be covered by the indemnity provided under the lease by BBPC, which is defending these actions on behalf of ESD and BBPDC. Therefore, the outcome of these three proceedings is unlikely to have any material adverse financial effect on ESD or BBPDC.

The first proceeding alleged that the City and State entities improperly allowed the Pier 1 hotel and appurtenant condominium developer to build a taller structure than was permitted under the General Project Plan governing the Project. In June 2015, this proceeding was decided in favor of the City and State entities, and all interim injunctions were vacated. Petitioners have appealed this well-reasoned decision, and the appeal is fully briefed before the Second Department, which has not yet set a date for oral argument. As a practical matter the case is probably over, since the Appellate Division would likely not grant a pre-appeal temporary injunction barring further construction and the buildings are virtually complete.

A second Article 78 petition, filed by a different petitioner, alleges that the Pier 1 hotel as built violated a restricted and protected scenic view-plane from the Brooklyn Heights Promenade. ESD/BBPDC and New York City have moved to dismiss the second Article 78 proceeding and that motion is pending. The third Article 78 proceeding challenges the necessity of developing the final two parcels in the Park, located upland of Pier 6. The main allegation is that BBPC and ESD did not restrict the size of the proposed Pier 6 buildings to the minimum required to ensure financing of the Park. The Supreme Court has held three hearings on this dispute, focusing on efforts to negotiate a settlement, but no settlement has been reached to date.

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 no decision has yet been issued

Note 19 - 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 seven private Phase II properties needed for the Project; ESD took title to such properties pursuant to Court order in September 2014; and ESD obtained vacant possession of such properties in May 2015. The remaining issue before the Court in this proceeding is valuation of the condemned properties. ESD has exchanged Vesting Date (September 19, 2014) appraisals for the properties for which claims have been filed. Four of the fee claims and four fixture claims have been settled. A trial for another property is scheduled to commence in November 2017.

Pursuant to the Project contract, all condemnation awards are to be paid by the Project developer, not ESD, and 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.

Lower Manhattan Development Corporation ("LMDC")

On August 31, 2004, LMDC took ownership of the parcel at 130 Liberty Street, which was an entire block that included a building formerly owned by Deutsche Bank. The building was badly damaged on September 11, 2001, and 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 had received approval from HUD to allocate Community Development Block Grant funds to the acquisition, abatement, deconstruction, and related efforts. In addition, pursuant to various settlement agreements, LMDC had received funding for this Project from Deutsche Bank's insurance carriers in the amount of $102.4 million and from Deutsche Bank in the amount of $3.8 million.

The costs of the Project included general and trade contractors, LMDC's owner's representative, integrity monitoring, environmental review and testing, certain insurance policies, legal fees for transactions and litigation, and land use and environmental compliance. At March 31, 2017, LMDC had expended on the Project approximately $257 million of the allocated HUD funds, net of the $40 million in recoveries from a settlement agreement entered into between LMDC and its general contractor, Bovis Lend Lease LMB, Inc. in May 2015, and approximately $106 million of the funds received pursuant to the settlements with Deutsche Bank and its insurance carriers.

Note 19 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation (“LMDC”), Continued

In August 2007, a major fire occurred at the site, resulting in the deaths of two New York City firefighters, injuries to numerous other firefighters, substantial damage to the structure, and substantial delays in Project progress. LMDC has been served with numerous lawsuits or notices of claims for alleged personal injuries suffered in connection with the August 2007 fire, other construction accidents at the Project, and accidents at other sites and projects in Lower Manhattan, including sites under the control of other public entities. Management believes that such claims are covered by indemnity obligations of, and/or insurance policies held by the contractors or owners directly responsible for those sites, and/or, if necessary, by the LMDC’s own insurance policies, subject to any applicable deductibles. All such claims have been and will continue to be vigorously defended by LMDC or for LMDC by the indemnifying parties. It has been reported to LMDC that most personal injury claims have been settled conditionally without contribution by LMDC. Management believes that the ultimate outcome of these legal actions will not have a material adverse effect on the financial condition of 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, 2017 will have a material adverse impact on LMDC’s financial condition.

Contingencies related to LMDC at March 31, 2017 consist of the following:

Grants

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.

Note 19 - Commitments and Contingencies, Continued

(b) Letters of Credit and Credit Guarantees

ESD maintains two irrevocable letters of credit each of $92.3 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 2017 is approximately $77.8 million.

(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 and thereafter as of March 31, 2017 are as follows (excluding escalations and option period) (in thousands):

2018	$ 6,708
2019	6,942
2020	7,020
2021	7,098
2022	7,124
Thereafter	8,906
TOTAL	$ 43,798

Note 20 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 74 - “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.” This Statement, issued in June 2015, replaces existing standards of accounting and financial reporting for postemployment benefit plans other than pension plans and also replaces existing requirements for defined contribution OPEB plans. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

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

GASB Statement No. 75 - "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." This Statement, issued in June 2015, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2017, which is the fiscal year beginning April 1, 2018 for the Corporation. The effects of this Statement on the consolidated financial statements of the Corporation are not presently determinable.

GASB Statement No. 80 - "Blending Requirements for Certain Component Units - an Amendment of GASB Statement No. 14." This Statement, issued in January 2016, amends the blending requirements for the financial statement presentation of component units of all state and local governments. It requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this Statement are effective for financial statements for years beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation. This Statement is not expected to have a material effect on the consolidated financial statements of the Corporation.

GASB Statement No. 81 - "Irrevocable Split-Interest Agreements." This Statement, issued in March 2016, establishes accounting and reporting standards for irrevocable split-interest agreements with characteristics that are equivalent to irrevocable split-interest agreements in which a donor irrevocably transfers resources to an intermediary who administers these resources for the unconditional benefit of a government and at least one other beneficiary. The provisions of this Statement are effective for financial statements for years beginning after December 15, 2016. For the Corporation, this statement becomes effective for the fiscal year beginning April 1, 2017. This Statement is being evaluated for its effect on the consolidated financial statements of the Corporation.

GASB Statement No. 82 - "Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73." This Statement, issued in March 2016, addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, which is the fiscal year beginning April 1, 2017 for the Corporation, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date

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

other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017, which is the fiscal year beginning April 1, 2018 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. 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. 85 - "Omnibus 2017." This Statement, issued in March 2017, addresses issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning April 1, 2018 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. 86 - "Certain Debt Extinguishment Issues." This Statement, issued in May 2017, addresses issues related to in substance defeasances occurring through repayment of debt from existing resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017, which is the fiscal year beginning April 1, 2017 for Corporation. Management is in the process of evaluating the potential impact due to the implementation of this Statement on the consolidated financial statements of Corporation.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Funding Progress - Other Postemployment Benefits
Last Three Fiscal Years

	Actuarial					
Valuation Date	Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
April 1, 2014	$ -	74,230,439	74,230,439	-	23,312,392	318.4%
April 1, 2015	-	83,453,951	83,453,951	-	25,039,418	333.3%
April 1, 2016	-	88,095,877	88,095,877	-	25,801,905	341.4%

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, 2017

NYSERS Pension Plan (in thousands)			
	2017	2016	2015
Corporation's proportion of the net pension liability	0.0864938%	0.0882936%	0.0882936%
Corporation's proportionate share of the net pension liability	$ 13,883	$ 2,983	$ 3,989
Corporation's covered payroll	$ 25,802	$ 25,039	$ 23,312
Corporation's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	53.81%	11.91%	17.11%
Plan fiduciary net position as a percentage of the total pension liability	90.7%	97.9%	97.9%

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

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information
Schedule of Corporation's Employer Pension Contributions
Year ended March 31, 2017

NYSERS Pension Plan (in thousands)

	2017	2016	2015	2014	2013	2012
Contractually required contribution	$ 3,575	4,327	4,473	5,217	4,328	3,356
Contributions in relation to the contractually required contribution	3,575	4,327	4,473	5,217	4,328	3,356
Contribution deficiency (excess)	$ -	-	-	-	-	-
Corporation's covered employee payroll	$ 25,802	25,039	23,312	22,300	21,943	22,114
Contributions as a percentage of covered employee payroll	13.86%	17.28%	19.19%	23.39%	19.72%	15.18%

EFPR GROUP, CPAs PLLC

6390 Main Street, Suite 200
Williamsville, NY 14221

P 716.634.0700
TF 800.546.7556
F 716.634.0764
W EFPRgroup.com

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, 2017, 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 15, 2017.

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 15, 2017

EFPR GROUP, CPAs PLLC

6390 Main Street, Suite 200
Williamsville, NY 14221

P 716.634.0700
TF 800.546.7556
F 716.634.0764
W EFPRgroup.com

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, 2017.

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.

Auditor's 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, 2017.

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 15, 2017