



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

Basic Financial Statements

March 31, 2017

(With Independent Auditors' Report Thereon)



KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

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

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Dormitory Authority of the State of New York (DASNY), a component unit of the State of New York, which comprise the statement of net position as of March 31, 2017, and the statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of DASNY, as of March 31, 2017, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Emphasis of Matter

As discussed in note 2(a) to the financial statements, as of April 1, 2016, DASNY adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–20, the schedule of funding progress for the retiree health plan on page 55, the schedule of proportionate share of the net pension liability on page 56, and the schedule of pension contributions on page 57, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2017 on our consideration of DASNY'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 DASNY's internal control over financial reporting and compliance.

KPMG LLP

Albany, New York
June 21, 2017

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
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Management's Discussion and Analysis

March 31, 2017

(Unaudited)

The following discussion and analysis of the Dormitory Authority of the State of New York's (DASNY) financial performance provides an overview of DASNY's activities as of and for the year ended March 31, 2017. It should be read in conjunction with DASNY's financial statements that follow this section. This discussion and analysis is intended to serve as an introduction to DASNY's basic financial statements, which are comprised of the financial statements and the notes to the financial statements.

Background

DASNY is a public benefit corporation, an independent corporate agency with governmental functions delegated to it by the State of New York (the State), and is authorized to finance, design, construct or rehabilitate buildings for use by various public and private not-for-profit corporations.

DASNY is governed by an eleven member Board composed of the Director of the Budget of the State, the Commissioner of Education of the State, the Commissioner of Health of the State, the State Comptroller or one member appointed by him or her, five members appointed by the Governor, with the advice and consent of the Senate, one member appointed by the Temporary President of the State Senate, and one member appointed by the Speaker of the State Assembly. All bonds and notes issued by DASNY must also be approved by the New York State Public Authorities Control Board.

DASNY Lines of Business

DASNY's two primary lines of business are debt issuance and construction management, which are supported by DASNY's operating activities. Both lines of business derive the majority of their business from public clients (88% average over the last 5 years), the majority of which comes from our construction management activities (81% average over the last 5 years).

As a part of its operating activities, DASNY also devotes significant efforts to the administration of grants authorized by the State and payable to a variety of public and private grantees from proceeds of bonds issued by DASNY. DASNY has a staff of approximately 500 located in three main offices (Albany, New York City and Buffalo) and at approximately 60 field sites across the State. DASNY provides services to various clients within two major categories: private institutions, which generally include clients qualified under Section 501(c)(3) of the Internal Revenue Code (e.g. not-for-profit healthcare clients and independent colleges, universities and other not-for-profits), and public entities, which include the State University of New York (SUNY), the City University of New York (CUNY), New York State (NYS) agencies and municipal facilities. DASNY's clients, both public and private, typically have alternatives to using the debt issuance and construction management services offered by DASNY.

DASNY Operating Activities

DASNY operating revenues primarily result from financing fees related to debt issuances, annual administrative fees related to ongoing bond management, and construction fees related to project management and other construction-related services provided. Generally, private institutions and the State's mental hygiene program pay a financing fee upon issuance of the bonds and notes and an ongoing annual administrative fee throughout the term of the bonds and notes based on a percentage of either the original par amount or the par amount outstanding, depending on the fee structure in place when the bonds or notes were issued. Other public clients (e.g., CUNY, SUNY, NYS agencies, and court facilities) pay financing and administrative fees in amounts equal

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to their respective allocable share of DASNY operating expenses applicable to financing and ongoing bond management activities. Construction fees for public and private clients are generally equal to the allocable amount of DASNY operating expenses attributable to the construction services provided.

Construction Management

DASNY's Construction Management business consists of two levels of service – DASNY-Managed and reimbursement based (Certified Construction).

For DASNY-Managed projects, these services include direct project management as well as ancillary services including design preparation and review, bidding, negotiating, and administering contracts for construction, acquisition of furniture, fixtures and equipment, and on-site project management. DASNY generally provides project management services on the projects that are funded from bonds and notes issued by DASNY on behalf of most of its public clients. DASNY also provides its Construction Management services to certain other public clients, with the cost of such projects funded from amounts provided by the clients. DASNY's statutorily authorized client base continues to grow. At any given time, DASNY actively manages 600-1,000 projects of varying sizes ranging from several thousand dollars to several hundred million dollars.

Certified Construction Disbursements represent disbursements for projects where DASNY does not provide any construction services, but rather, the individual clients manage the construction and DASNY reimburses the clients for expenditures made. This category includes construction disbursements made on behalf of most not-for-profit healthcare, independent colleges, universities, and other not-for-profits, as well as SUNY educational facilities, certain State grant programs, public school districts, Boards of Cooperative Educational Services (BOCES) and Special Act School Districts.

Debt Issuance

DASNY is a conduit debt issuer. Under existing law, and assuming continuing compliance, interest on most bonds and notes issued by DASNY has been determined to be excludable from gross income for federal tax purposes. DASNY issues debt for three purposes, for both its public and private clients:

New money debt – to fund new money projects and grants;

Refunding debt – to refund previously issued DASNY bonds; and

Refinancing debt – to refund or refinance non-DASNY bonds and commercial loans

DASNY's Debt Issuance activities also include various types of bond retirements:

Scheduled redemptions – bonds retired in accordance with their respective amortization schedules

Refundings – bonds redeemed or defeased through DASNY's issuance of refunding bonds; and

Defeasances and early redemptions – bonds redeemed or defeased with:

1. funds deposited by institutions of which some amounts have been funded through the issuance of debt by other issuers or financial institutions;

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2. proceeds from the sales of mortgages securing the related bonds; or
3. existing assets in bond accounts.

As a means to lower borrowing costs for the State and New York City (the City) and to cost effectively support their strategies to diversify their debt portfolios with a combination of fixed and variable rate debt and more closely match their assets and liabilities, DASNY enters into interest rate swap agreements at various times. DASNY's swaps are undertaken as a part of the State's and City's overall debt management programs. DASNY is only obligated to make swap payments from monies paid to it by the State or City pursuant to lease and financing agreements related to the State and City-supported bonds. More detailed information regarding DASNY's interest rate exchange agreements, including their requirements and risks, are presented in notes 7 and 8 to the basic financial statements.

All of DASNY's outstanding bonds and notes are special obligations payable solely from payments required to be made by or for the account of the client for which the particular special obligations were issued. Such payments are pledged or assigned to the trustees for the holders of the respective special obligations. DASNY has no obligation to pay its special obligations other than from such payments. In addition, certain bond and note issues are also secured by other forms of credit enhancement, including municipal bond insurance and bank letters of credit. DASNY monitors the ratings of credit enhancers and takes appropriate actions as required under the provisions of the related bond documents. DASNY also works closely with its clients to identify and implement strategies, including refunding bonds, converting interest rate modes, and adding or substituting liquidity facilities, to mitigate the effects of market changes as well as downgrades to credit enhancer ratings. See note 7 to the basic financial statements for a further discussion of bonds and notes outstanding.

Executive Summary

During 2017 DASNY continued its work with the New York City Housing Authority for a public housing modernization and improvements for security upgrades and quality of life improvements for the residents following the state's authorization of \$100 million of work for DASNY in the 2015-16 State budget. DASNY also continued providing direct design and construction services for various projects in both the upstate and downstate regions for the Community Redevelopment Program for the Governor's Office of Storm Recovery (GOSR). Overall project budgets for the approximately 60 GOSR projects that have either been formally authorized or are being planned for assignment total approximately \$166 million.

DASNY's debt issuance activities had another strong year, issuing over \$6.6 billion in debt.

From a reporting perspective, DASNY adopted new accounting rules related to disclosure of the fair market value of its investments. The new rules require disclosure related to the type of investment in terms of the objectivity of the underlying data used to determine the fair market value. These disclosures are intended to provide the user with additional information upon which they can assess the reliability of the fair values. There were no impacts on the financial statements as the effect of the new rules for DASNY related solely to disclosures.

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Overview of Basic Financial Statements

DASNY is considered a special-purpose government entity engaged in business-type activities and follows financial reporting for enterprise funds. The basic financial statements provide information about DASNY's overall financial condition. The notes provide explanations and more details about the content of the basic financial statements.

DASNY has elected the option under Governmental Accounting Standards Board (GASB) Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, to report conduit debt in its basic financial statements. Pursuant to this election, DASNY's basic financial statements are a compilation of almost two thousand separate self-balancing accounts related to both the individual series of outstanding bonds and notes and the individual operating accounts for nonbonded projects, various special purposes and operations. DASNY does not commingle cash and investments.

As a result of the inclusion of conduit debt, the majority of the activity reflected in the financial statements does not reflect DASNY's own financial position or health. Rather, the vast majority of activity reflected in the basic financial statements relates to:

1. monies held in the restricted accounts associated with the issuance of bonds and notes;
2. the collection of monies in accordance with the provisions of the underlying loan or financing agreements;
3. the payments to the holders of the bonds and notes in accordance with the provisions of the underlying bond and note resolutions; and
4. disbursements for construction and other loan activity

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

- **Statement of Net Position** – This statement presents information reflecting DASNY's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. Net position represents the amount of total assets and deferred outflows of resources less liabilities and deferred inflows of resources and is one way to measure DASNY's financial position. Net position is comprised of Unrestricted Net Position, related to DASNY's operating activities, Restricted Net Position, related to monies held in the restricted bond and note accounts, and Net Investment in Capital Assets, primarily related to its Albany headquarters building. Restricted Net Position remains in the accounts of each of the individual bond or note issues and accrues to the benefit of the respective client institutions. At final maturity, the restricted net position of an individual bond or note issue will be \$0.
- **Statement of Revenues, Expenses, and Changes in Net Position** – This statement reflects DASNY's operating and nonoperating revenues and expenses for each year. The majority of DASNY's revenue and expense activity does not relate to operations, rather it relates to activity in the restricted accounts of the individual series of bonds and notes. In some years, revenues exceed expenses in restricted bond and note accounts. In other years, expenses exceed revenues in restricted bond and note accounts as

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accumulated revenues are utilized for various purposes. Restricted net position remains in each of the individual bond or note issues and accrues to the benefit of the respective client institutions.

- **Statement of Cash Flows** – The statement of cash flows is presented using the direct method of reporting which reflects cash flows from operating, noncapital financing, capital financing, and investing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash for each year. The statement also includes a reconciliation between operating income or loss per the Statement of Revenues, Expenses, and Changes in Net Position to net cash from operating activities per the Statement of Cash Flows.

Discussion of DASNY Lines of Business Activities

DASNY Operating Activities

DASNY's internal operating expenses totaled approximately \$77 million during 2017, of which 13% was allocable to private institutions and 87% was allocable to public programs. DASNY's internal operating expenses totaled approximately \$77 million during 2016, of which 12% was allocable to private institutions and 88% was allocable to public programs. In both 2017 and 2016 approximately 82% of DASNY's personal service expense was associated with Construction Management activities.

Debt Issuance Activities

Bonds and Notes Issued

As the charts below illustrate, DASNY's Debt Issuance activity for the last two years has been primarily for new money and refundings with more than half of the activity coming from public clients. During 2017, the par value of bonds issued decreased \$1.6 billion (19%) from the prior year to \$6.6 billion. While new money and refunding issuances represented the majority of DASNY's debt issuances in both 2017 and 2016, a decrease in refinancings in 2017 increased the relative size of combined new money and refunding issuances to 96% (from 77%). The charts on the following page provide additional detail regarding the three types of issuances by client type.

The 2017 decrease in the par value of bonds issued was due primarily to refinancings following a particularly high volume in 2016, with an increase in new money issuances offsetting the impact of lower refundings. The decrease in refinancings and increase in new money issuances also drove the shift in the public-to-private proportion with the public share decreasing from 68% in 2016 to 55% in 2017 primarily due to approximately \$800 million of new money issued to one private client and a \$1.6 billion reduction in refinancings for NYS Agencies driving the shift.

An additional \$33 million and \$441 million par of reofferings occurred during 2017 and 2016 respectively, and are not included in the debt issuance activities discussed above. The reofferings were carried out to effectuate conversions of variable to fixed rate bonds, changes in interest rate modes for variable rate bonds, and changes in liquidity facilities for variable rate bonds.

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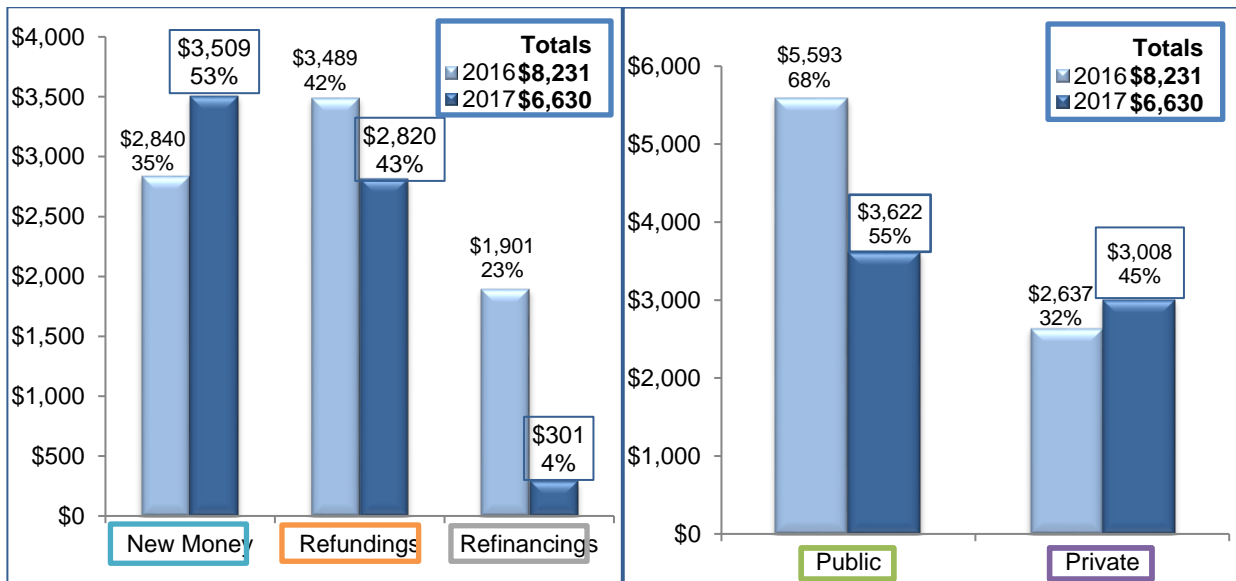
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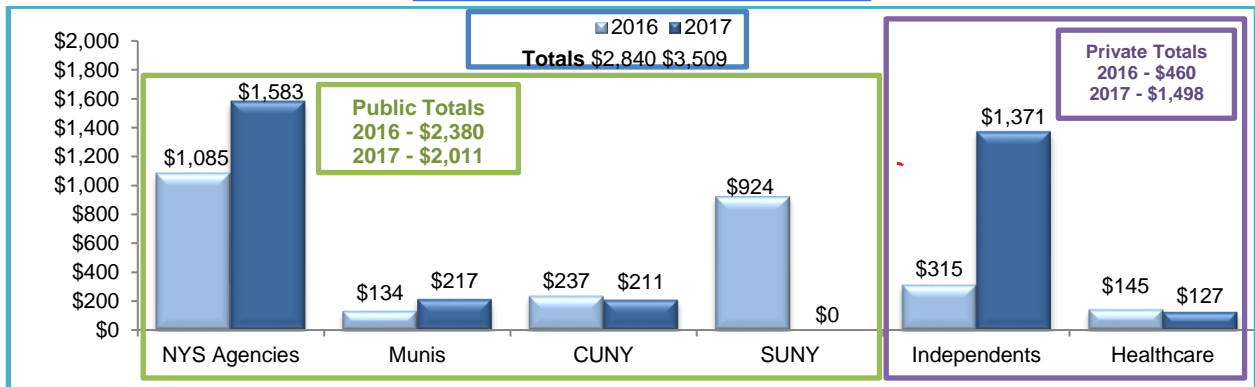
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Par Amount of Bonds and Notes Issued (\$in millions)

These amounts vary from the amounts reflected in Proceeds from Issuance of Bonds and Notes on the Statement of Cash Flows due to the inclusion of the net premium received on the bonds and notes issued in the Statement of Cash Flows.



New Money (\$in millions)

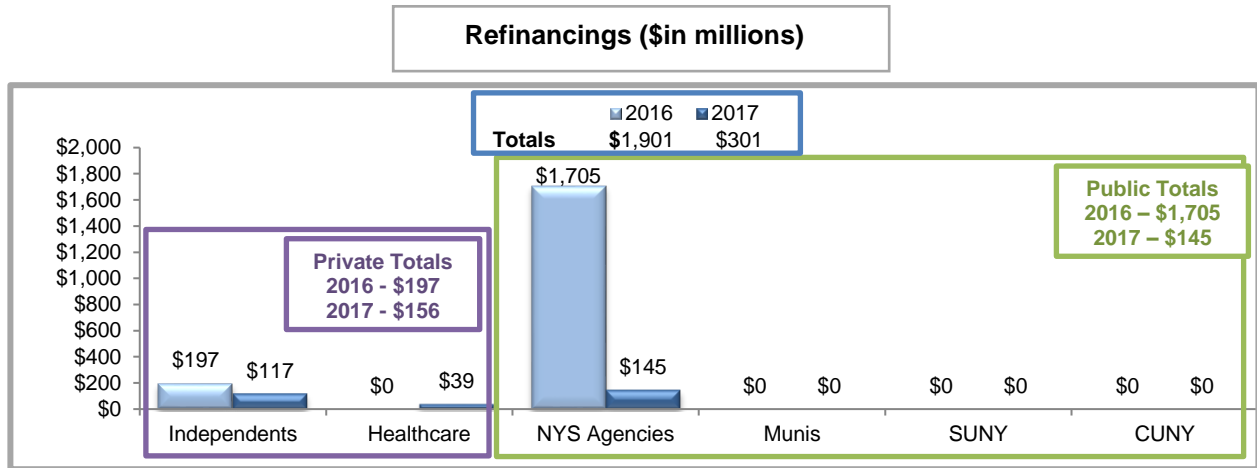
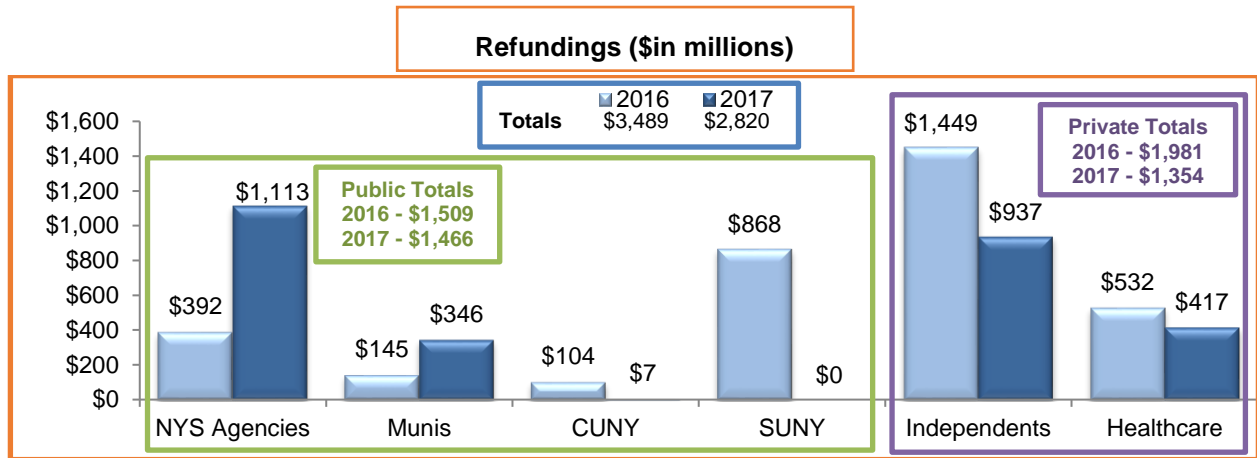


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Bonds and Notes Retired

As shown in the charts below, refundings of DASNY bonds contributed approximately half of DASNY's bond retirement activity in 2017 and were the primary driver of the \$0.6 billion decrease in retirement activity from 2016. As shown in the charts on the next page, over half of the 2017 refundings were for DASNY's public clients, resulting in a 6% increase in the public clients' portion of the total bonds retired to 56% (from 50%) despite essentially flat overall activity for DASNY's public clients. This is due to a year-over-year decrease in refundings for private Independent clients as previous refundings have decreased the opportunity for these clients to leverage lower interest rates to reduce their outstanding debt and interest expense.

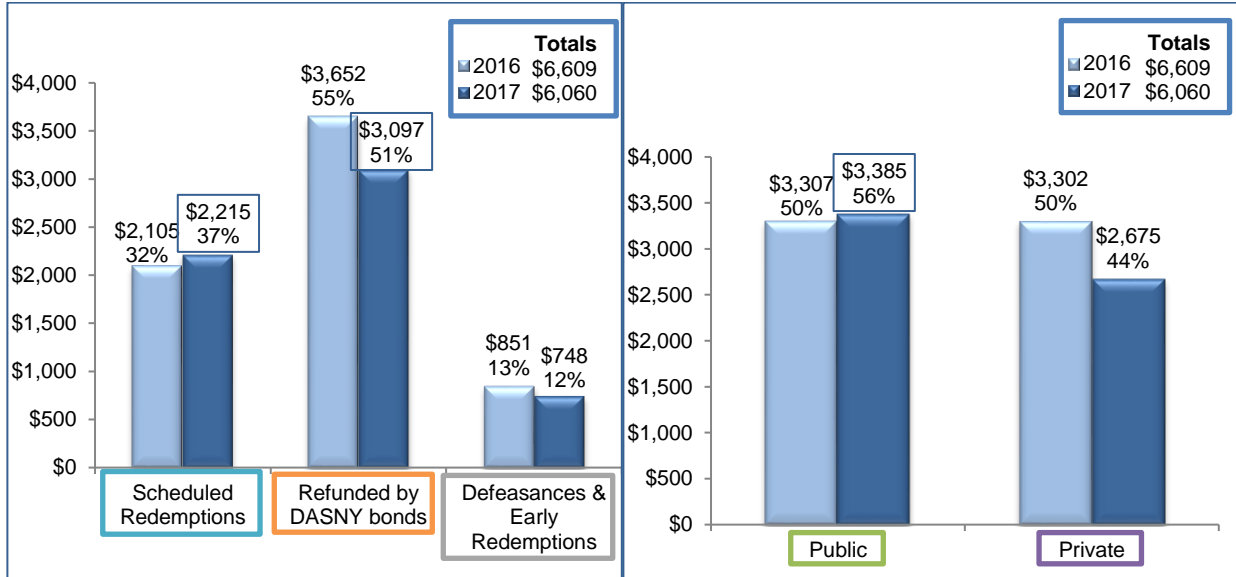
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Par Amount of Bonds Retired (\$in millions)



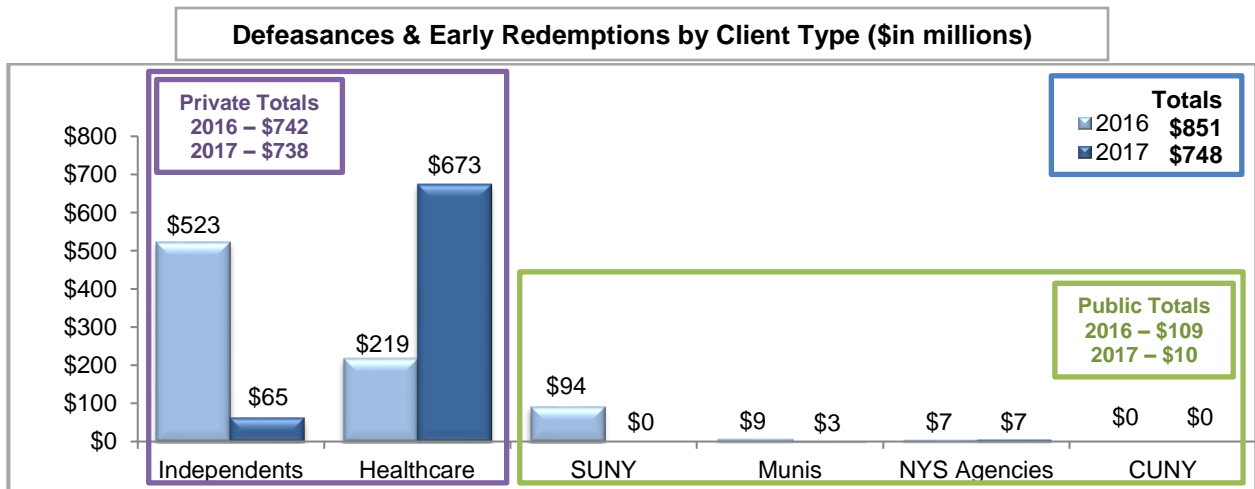
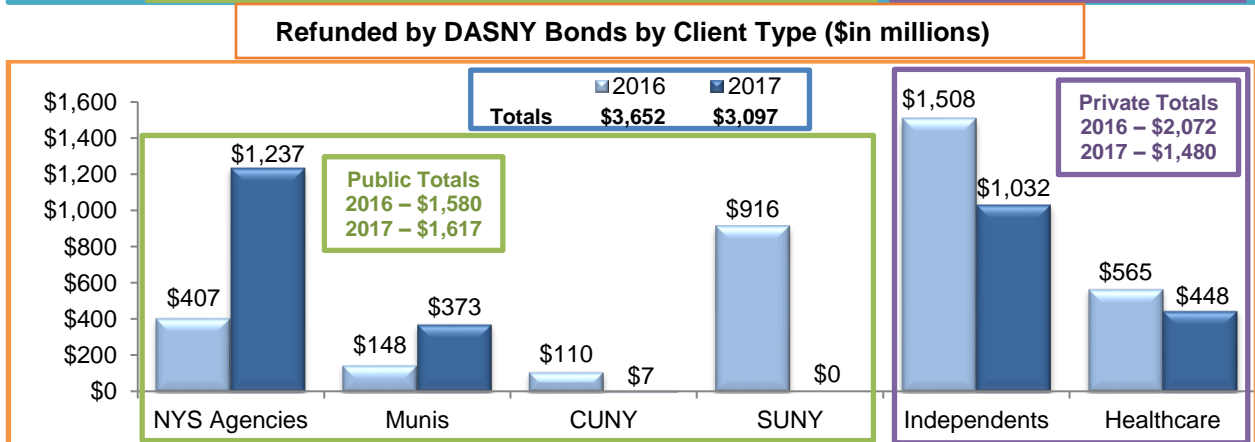
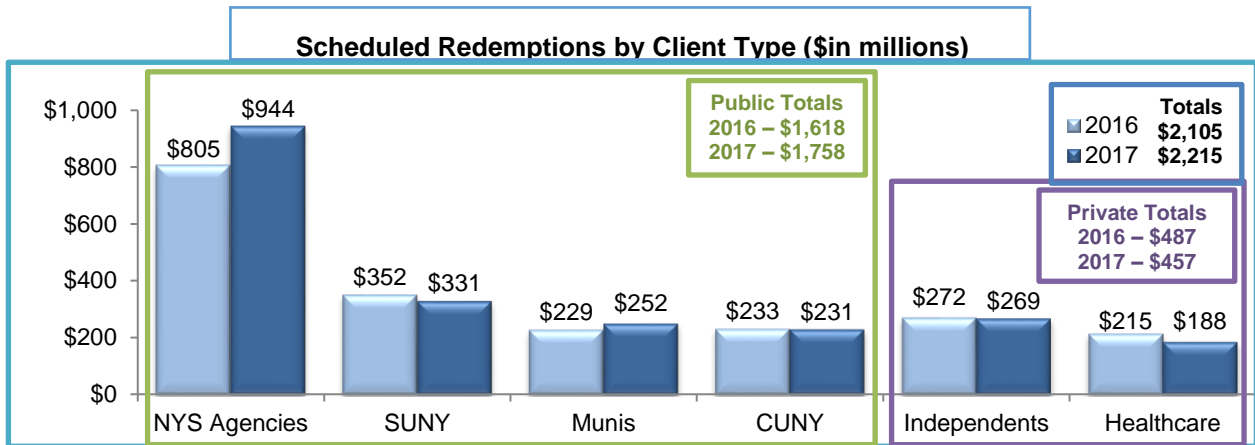
The amount refunded by DASNY presented above varies from the amount of refunding debt issued shown in the previous chart due to several factors. Original issue premium on the new bonds issued, balances available in existing bond accounts, and lower interest rates on the new bonds as compared to interest rates on the prior bonds each reduce the amount of new bonds required to refund the prior bonds. The need to fund bondholder interest on the prior bonds through the final redemption dates increases the amount of new bonds required to refund prior bonds. Generally, the amount of refunding debt issued by DASNY is less than the amount of bonds refunded by DASNY.

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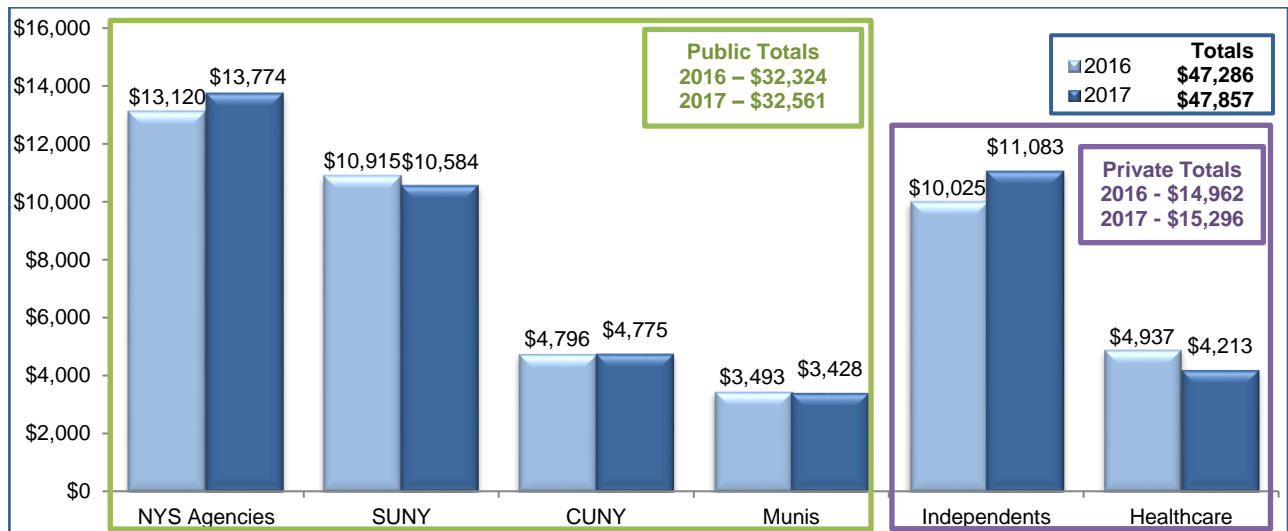
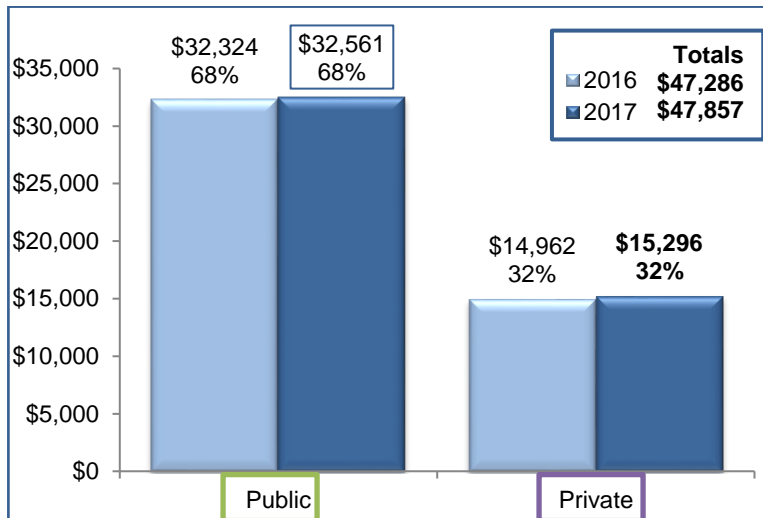
March 31, 2017

(Unaudited)

Bonds and Notes Outstanding

As shown below, approximately two-thirds of DASNY's outstanding bonds and notes are related to its public clients, with three-quarters of that portion related to NYS agencies and SUNY. During 2017, the outstanding balance remained essentially unchanged, increasing by \$0.6 billion (1%). (See note 7 to the financial statements for more detailed information.)

Bonds and Notes Outstanding by Program as of March 31
(\$in millions)



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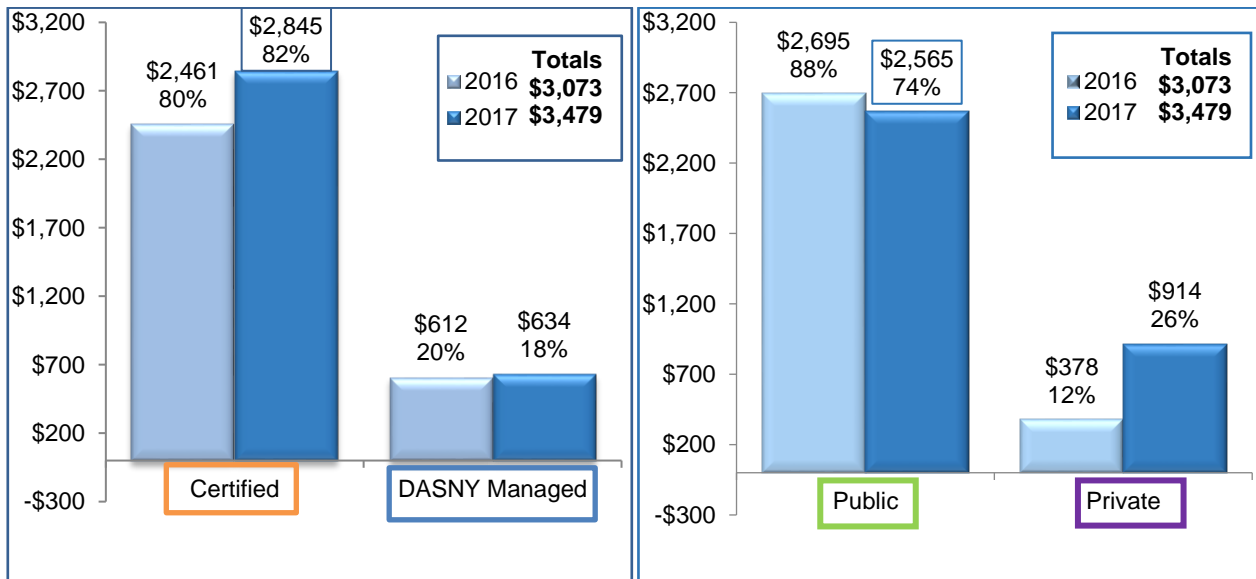
March 31, 2017

(Unaudited)

Construction Management Activities

As described in the Background section, DASNY's Construction Management activities consist of two types of disbursements – reimbursements to clients for projects they manage internally (Certified Construction Disbursements) and vendor payments for projects DASNY manages (DASNY-Managed Projects). As shown below, the majority (approximately 82%) come from reimbursements to clients for their internally managed projects. From a customer perspective, DASNY's Construction Management activities are concentrated (nearly 75%) with its public clients. During 2017, increased activity for Certified Construction Disbursements for private clients drove the overall increase in activity. In addition to public client work being essentially flat between 2016 and 2017, the increase in private client Certified Construction Disbursements caused the increase in their proportionate share of total construction expenditures to 26% (from 12%).

Construction and Loan Disbursements* (\$in millions)



* Included in the captions "Construction, Loan and Other Disbursements" and "Project Funds Disbursed" on the Statement of Cash Flows. These captions also included loan payoffs, defeasance of non-DASNY debt, costs of issuance, and capitalized fees and expenses.

The charts on the next page provide additional detail regarding the two types of construction disbursements, by client type. They show that even within the public clients there is a clear concentration of business, with the majority of DASNY's Construction Management activities coming from CUNY, SUNY and NYS Agencies.

In 2017 and 2016, Certified Construction Disbursements for SUNY and NYS Agencies programs totaled \$1,778 million and \$1,945 million, accounting for approximately 60% and 80% of the Certified Disbursements in each year and over half of each year's total construction disbursements.

While the DASNY-Managed Projects represent only 18% of the total construction disbursements, this activity is significant in terms of DASNY's operations. At any point in time, DASNY is actively managing 600-1,000

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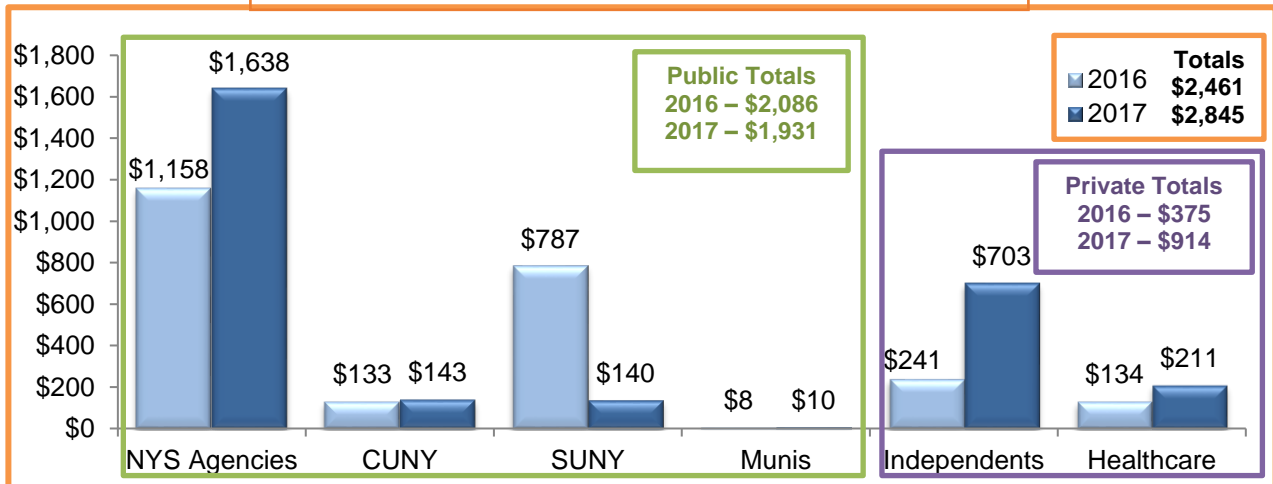
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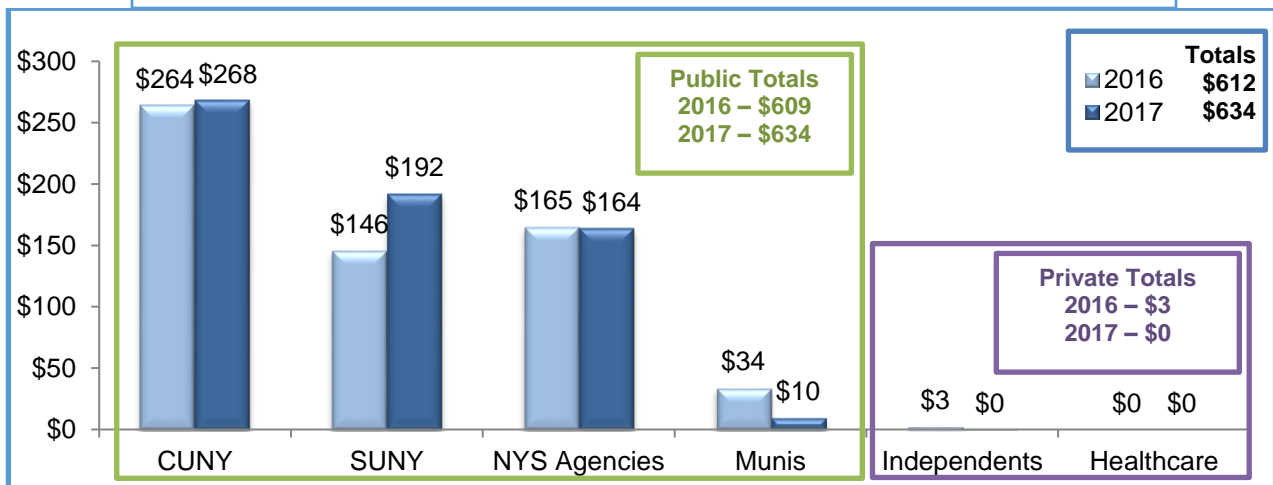
(Unaudited)

construction projects with the personnel needed to support this work accounting for more than 80% of DASNY's operating expenses. DASNY generates fees from these clients that are generally equal to their allocable amount of DASNY operating expenses attributable to the construction services provided.

**Certified Construction Disbursements by Program
(\$in millions)**



**Construction Disbursements for DASNY-Managed Projects by Program
(\$in millions)**



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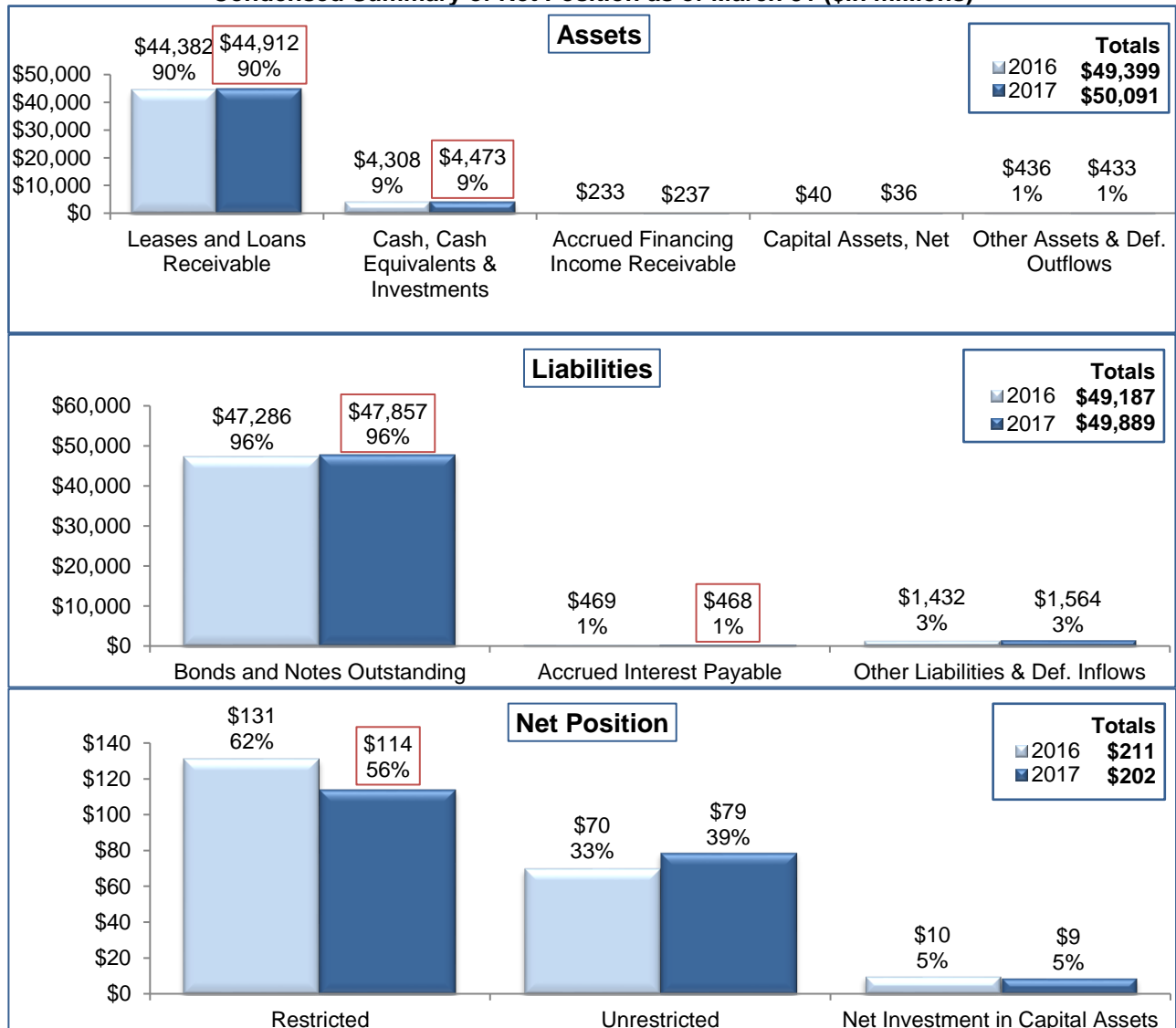
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Financial Analysis

Statement of Net Position

As shown by the red boxes in the charts below, and as described in the Background section, DASNY's conduit debt comprises the majority of DASNY's Statement of Net Position, making up nearly all of the Assets (essentially all of the cash, cash equivalents and investments are related to conduit debt) and Liabilities and nearly two-thirds of the Net Position balances.

Condensed Summary of Net Position as of March 31 (\$in millions)



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Assets

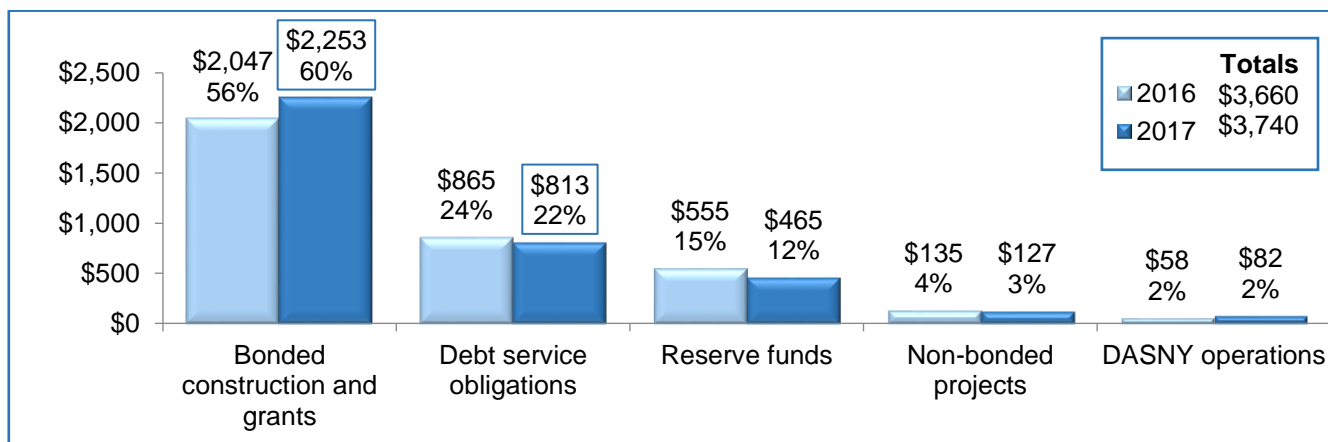
DASNY's assets are comprised primarily of (1) Leases and Loans Receivable, and (2) Cash, Cash Equivalents and Investments. The balance of DASNY's assets include (1) Accrued Financing Income Receivable, (2) DASNY's capital assets and those of its subsidiary Atlantic Avenue Holding Corporation, and (3) Other Assets.

Leases and Loans Receivable represents accumulated construction costs for each project, net of principal repayments from clients, client contributions, and investment earnings on construction accounts. When a project is completed, the receivable will equal the bonds or notes outstanding net of any bond proceeds deposited in reserve accounts. Fluctuations result primarily from the timing of disbursements for construction, loan, and other disbursements versus receipts of principal on leases and loans receivable, project contributions and income on investments in construction accounts. (See note 4 to the financial statements for more detailed information.)

Cash, Cash Equivalents and Investments primarily represent monies held for construction, reserves, or for payment of debt service on outstanding bonds and notes. Such monies are held in trust by a trustee bank for the benefit of bondholders. DASNY generally records investments at fair value. Fluctuations result primarily from differences between the timing of receipt of proceeds from new money bond issues and the disbursement of those proceeds for construction and other activities.

As highlighted in the chart below, DASNY's investment portfolio consists primarily (82%) of funds for (1) construction projects and grant programs financed by DASNY-issued bonds, and (2) debt service obligations. (See note 3 to the financial statements for more detailed information.)

Investment Balances by Purpose as of March 31* (\$in millions)



* An additional \$307 million and \$257 million of money market funds as of March 31, 2017 and 2016, respectively, managed by DASNY is reflected in the Statement of Net Position as a component of Cash and Cash Equivalents.

Accrued Financing Income Receivable represents the amount of interest on bonds and notes due from clients since the last client loan repayment date through DASNY's fiscal year-end. Fluctuations result from accrued

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interest payable on new bond issues, changes in the balance of capital appreciation bonds, the conversion of variable rate bonds to fixed rate bonds and changes in the interest rate environment.

Capital assets represent the capital assets of a DASNY subsidiary (Atlantic Avenue Holding Corporation) and DASNY's Albany headquarters building (DASNY's Buffalo headquarters building is fully depreciated). Capital assets of DASNY's other subsidiary (NGHP Holding Corporation) are not reflected within this balance as the terms of this lease meet the criteria of a direct financing lease, and accordingly, is included in Other Receivables. DASNY's interest in capital assets financed through the issuance of bonds and notes on behalf of clients is recorded on the Statement of Net Position as a component of Leases and Loans Receivable. (See note 5 to the financial statements for more detailed information.)

Other Assets & Deferred Outflows include project funds receivables, accrued interest receivable on investments, deferred outflows of resources related to pensions, and other receivables.

Liabilities

DASNY's liabilities are comprised primarily of Bonds and Notes Outstanding. The balance of DASNY's liabilities include (1) Accrued Interest Payable, and (2) Other Liabilities.

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

Other Liabilities & Deferred Inflows include accounts payable, amounts due to NYS, unearned financing income, amounts held for institutions, deferred inflows of resources related to pensions and unearned fees.

Net Position

DASNY's net position consists primarily of Restricted and Unrestricted Net Positions, as well as its Net Investment in Capital Assets.

Restricted Net Position relates to activity in the bonds and note accounts and is the largest component of DASNY's Net Position, accounting for more than two-thirds of the total.

Unrestricted Net Position relates to DASNY's operating activities and accounts for nearly one-third of DASNY's Net Position. The related assets include unrestricted cash and investments, including monies available to assist healthcare clients and program development accounts.

Net Investment in Capital Assets primarily relates to DASNY's headquarters building and related furniture and equipment.

2017 Activity

Overall DASNY's Statement of Net Position remained relatively stable in 2017. Increases in assets and liabilities (\$0.7 billion each) were driven by the net increase in bonds outstanding (issuances of \$6.6 billion less retirements of \$6.0 billion) and related Leases and Loans Receivable. Restricted Net Position decreased

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Management's Discussion and Analysis

March 31, 2017

(Unaudited)

\$17 million primarily due to transfers to escrow in connection with refundings and the utilization of prior years' accumulated earnings for debt service.

Statement of Revenues, Expenses, and Changes in Net Position

As shown on the charts on the next page, the majority of DASNY's revenues and expenses relates to activity associated with the bonds and notes DASNY issues rather than its own operations. The revenues generated in restricted bond and note accounts accumulate until needed. In some years, revenues exceed expenses in restricted bond and note accounts, usually as a result of income on investments and contributions of cash and investments. In other years, expenses exceed revenues in restricted bond and note accounts as accumulated revenues are utilized, usually for payment of debt service, redemption of bonds and notes or transfers to escrow in connection with refundings.

The activity associated with the bonds and notes DASNY issues is reflected in the following categories:

1. *Financing Income* – interest payments from clients
2. *Income on Investments* – primarily income on restricted bond and note accounts other than construction accounts:
 - Income on investments in construction accounts is reflected in the Statement of Net Position as a component of Leases and Loans Receivable since the earnings are generally used for project costs.
3. *Other Revenues* – primarily income on investments transferred from construction accounts and contributions of cash and investments
4. *Interest on Bonds and Notes* – interest payments to bondholders
5. *Other Expenses* – primarily transfers of accumulated Restricted Net Position and current year revenues to escrow in connection with refundings, amounts returned to institutions, reductions of leases and loans receivable due to redemption of bonds, arbitrage expense, program expenses and administrative fees paid from restricted accounts.

Financing Income and Income on Investments on certain restricted bond and note accounts are used to pay interest on bonds and notes.

Fluctuations in Other Revenues reflect the relative amounts of contributions deposited to meet reserve requirements along with investment income available in construction accounts and transferred to other restricted bond and note accounts.

DASNY's operating activity is primarily reflected in the following categories:

1. *Fees for Services* – financing fees and annual administrative fees related to ongoing bond management and construction services; and

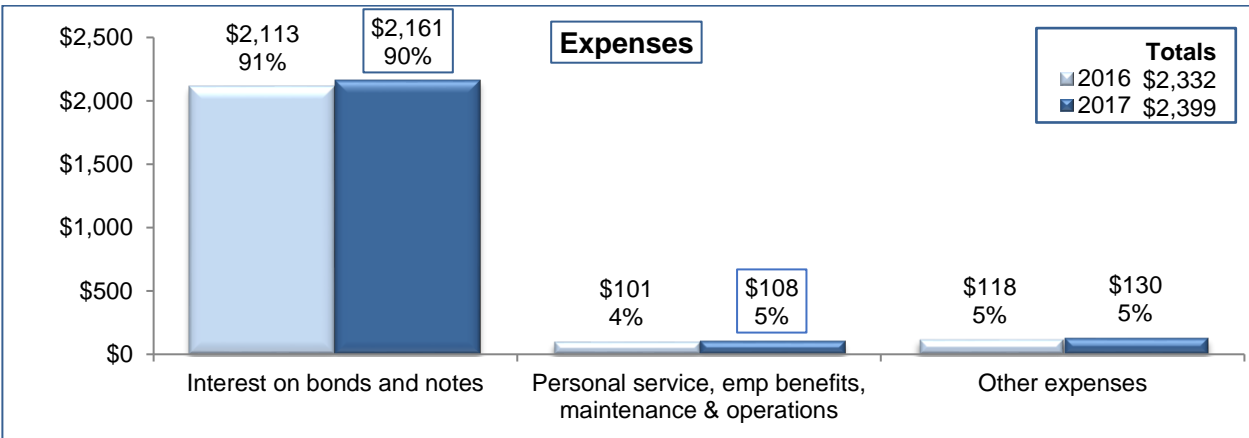
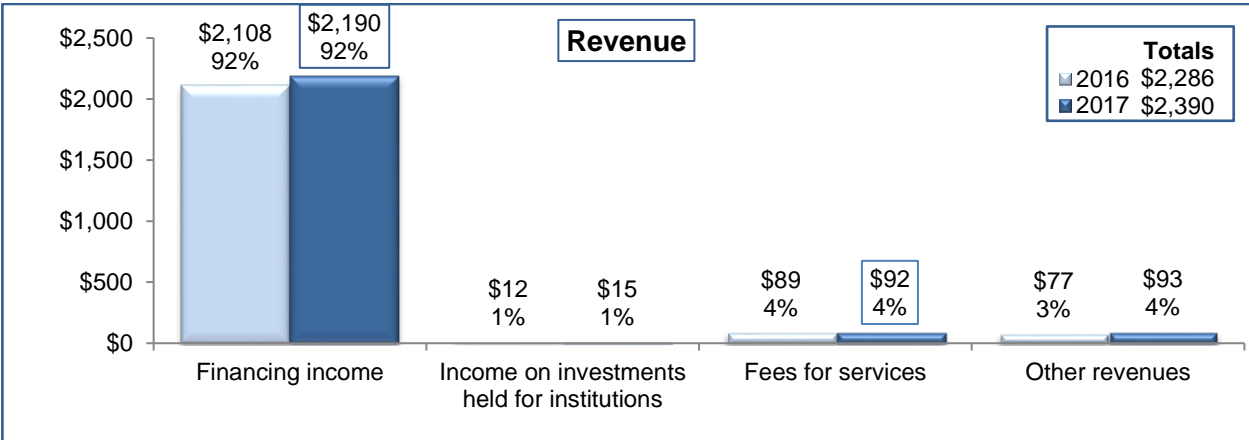
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2. *Costs of Operations* (Personal Service, Employee Benefits, Maintenance and Operations) – primarily for employee service and related benefits and taxes



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2017 Activity

Financing Income and Interest on Bonds and Notes remained relatively stable during 2017, with slight increases primarily due to interest on new bond issues.

Fees for Services increased by \$3 million (3%) during 2017, primarily due to an increase in revenue from public clients for construction management and grant administration services.

Personal Service, Employee Benefits, and Maintenance and Operations increased by \$7 million (7%) during 2017, primarily due to increases in personal services and employee benefits. The increase in benefit were primarily due to higher healthcare costs (due to higher premiums and a higher proportion of costs being driven by retirees for whom DASNY generally contributes a larger share than for active employees) and higher pension costs.

Request for Information

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

All required secondary market disclosures for DASNY's private not for profit clients are done through Digital Assurance Certification LLC (DAC) which can be accessed through the following website: www.dacbond.com. All required secondary market disclosures for DASNY's public clients are available on the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) website which can be accessed through the following website: www.emma.msrb.org. DASNY also provides additional information on its website at www.dasny.org. In addition, while certain information pertaining to DASNY's debt issuances for certain of DASNY's public clients is available on the DAC website, DASNY, the bond trustee and the applicable client each have responsibilities with respect to the filing of material event notices and providing updated financial and operational data with EMMA.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
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Statement of Net Position

March 31, 2017

(Dollars in thousands)

Assets and Deferred Outflows

| | |
|--|----------------------|
| Current assets: | |
| Cash and cash equivalents (note 3) | \$ 733,437 |
| Investments (note 3) | 946,863 |
| Leases and loans receivable, net (note 4) | 4,080,624 |
| Project funds receivable | 119,170 |
| Accrued financing income receivable | 237,409 |
| Accrued interest receivable on investments | 6,867 |
| Other receivables (note 2g) | <u>51,953</u> |
| Total current assets | 6,176,323 |
| Investments (note 3) | 2,792,979 |
| Leases and loans receivable, net (note 4) | 40,831,784 |
| Project funds receivable | 40,848 |
| Other receivables (notes 2g and 12) | 184,833 |
| Capital assets, net (note 5) | <u>36,089</u> |
| Total assets | 50,062,856 |
| Deferred outflows related to pension (note 11) | <u>28,903</u> |
| Total assets and deferred outflows | <u>\$ 50,091,759</u> |

Liabilities and Deferred Inflows

| | |
|---|----------------------|
| Current liabilities: | |
| Accounts payable and accrued expenses | \$ 330,925 |
| Bonds and notes outstanding (notes 6 and 7) | 4,080,624 |
| Accrued interest payable | 467,624 |
| Unearned financing income | 147,411 |
| Amounts held for institutions (note 6) | 302,406 |
| Due to New York State (note 6) | 180,765 |
| Current portion of other long-term liabilities (note 6) | 4,090 |
| Unearned fees for services | <u>61,178</u> |
| Total current liabilities | 5,575,023 |
| Bonds and notes outstanding (notes 6 and 7) | 43,776,023 |
| Amounts held for institutions (note 6) | 304,848 |
| Due to New York State (note 6) | 11,394 |
| Other long-term liabilities (note 6) | <u>219,002</u> |
| Total liabilities | 49,886,290 |
| Deferred inflows related to pension (note 11) | <u>2,975</u> |
| Total liabilities and deferred inflows | <u>\$ 49,889,265</u> |

Net Position

| | |
|---|-------------------|
| Net investment in capital assets (note 5) | \$ 9,672 |
| Restricted | 113,667 |
| Unrestricted (note 13) | <u>79,155</u> |
| Total net position | <u>\$ 202,494</u> |

See accompanying notes to basic financial statements.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
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Statement of Revenues, Expenses, and Changes in Net Position

Year ended March 31, 2017

(Dollars in thousands)

| | |
|---|--------------|
| Operating revenues: | |
| Financing income | \$ 2,190,490 |
| Income on investments held for institutions | 14,510 |
| Fees for services | 91,919 |
| Contributions of cash and investments | 44,981 |
| Other | 48,253 |
| Total operating revenues | 2,390,153 |
| Operating expenses: | |
| Interest on bonds and notes | 2,160,782 |
| Amounts returned to institutions | 1,709 |
| Reduction of leases and loans receivable due to redemption of bonds | 28,406 |
| Personal service and employee benefits | 84,520 |
| Maintenance and operations | 23,645 |
| Transfers to escrow | 71,836 |
| Other | 28,285 |
| Total operating expenses | 2,399,183 |
| Operating loss | (9,030) |
| Nonoperating revenues: | |
| Income on investments held for DASNY | 194 |
| Decrease in net position | (8,836) |
| Net position, beginning of year | 211,330 |
| Net position, end of year | \$ 202,494 |

See accompanying notes to basic financial statements.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK
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Statement of Cash Flows

Year ended March 31, 2017

(Dollars in thousands)

| | |
|--|-------------------|
| Cash flows from operating activities: | |
| Fees for services | \$ 105,568 |
| Amounts received from institutions | 47,405 |
| Project funds received | 291,043 |
| Dormitory rent receipts | 578,900 |
| Permit and patient income receipts | 1,517,838 |
| Special purpose healthcare loan receipts | 51,581 |
| Other receipts | 27,037 |
| Personal service and employee benefits | (68,657) |
| Maintenance and operations | (22,329) |
| Permit and patient income transferred to New York State | (1,512,664) |
| Project funds disbursed | (241,565) |
| Dormitory rent disbursements | (588,735) |
| Amounts returned to institutions | (4,195) |
| Special purpose healthcare loan disbursements | (38,746) |
| Other disbursements | (20,887) |
| Net cash provided by (used in) operating activities | <u>121,594</u> |
| Cash flows from noncapital financing activities: | |
| Proceeds from the issuance of bonds and notes | 7,786,353 |
| Amounts transferred to escrow to defease debt | (3,450,143) |
| Principal repayments of bonds and notes | (2,351,433) |
| Interest paid on bonds and notes | (2,195,580) |
| Net cash provided by (used in) noncapital financing activities | <u>(210,803)</u> |
| Cash flows from capital financing activities: | |
| Acquisition of property and equipment | (247) |
| Net cash provided by (used in) capital financing activities | <u>(247)</u> |
| Cash flows from investing activities: | |
| Purchases of investments | (13,071,054) |
| Proceeds from sales and maturities of investments | 12,980,419 |
| Income on investments | 29,990 |
| Construction, loan, and other disbursements | (4,328,446) |
| Principal receipts on leases and loans receivable | 2,363,902 |
| Financing income | 2,200,754 |
| Net cash provided by (used in) investing activities | <u>175,565</u> |
| Net decrease in cash and cash equivalents | 86,109 |
| Cash and cash equivalents, beginning of year | <u>647,328</u> |
| Cash and cash equivalents, end of year | <u>\$ 733,437</u> |

See accompanying notes to basic financial statements.

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

Statement of Cash Flows

Year ended March 31, 2017

(Dollars in thousands)

| | | |
|---|----|-----------------------|
| Operating loss | \$ | (9,030) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | |
| Depreciation expense | | 3,986 |
| Interest on bonds and notes | | 2,160,782 |
| Income on investments held for institutions | | (14,510) |
| Financing income | | (2,190,490) |
| Reduction of leases and loans receivable due to redemption of bonds | | 28,406 |
| Investment transfers | | (1,796) |
| Amounts transferred to escrow to defease debt | | 71,836 |
| Other expenses | | 711 |
| Change in assets and liabilities: | | |
| Increase in leases and loans receivable | | (93,029) |
| Increase in deferred outflows of resources related to pensions | | (19,815) |
| Decrease in project funds receivable | | 32,872 |
| Increase in other receivables | | (3,221) |
| Increase in accounts payable and accrued expenses and other long-term liabilities, net of construction funds | | 76,051 |
| Increase in due to New York State | | 19,575 |
| Increase in amounts held for institutions | | 38,754 |
| Increase in unearned fees for services | | 17,537 |
| Increase in deferred inflows of resources related to pensions | | 2,975 |
| Total adjustments | | <u>130,624</u> |
| Net cash provided by operating activities | \$ | <u><u>121,594</u></u> |

See accompanying notes to basic financial statements.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

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Notes to Basic Financial Statements

March 31, 2017

(1) DASNY

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

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

DASNY is authorized pursuant to Section 1678 (25) of the Public Authorities Law to establish subsidiaries for the purpose of limiting its potential liability when exercising its powers and duties in pursuit of remedies against a borrower that has defaulted in its obligations under a loan agreement or mortgage with DASNY.

On March 17, 2011, NGHP Holding Corporation (NGHP) was established as a subsidiary of DASNY in the form of a public benefit corporation as a result of North General Hospital's default under its loan agreements and mortgages with DASNY. North General Hospital filed a petition in bankruptcy and NGHP acquired certain real property assets subject to certain liabilities of North General Hospital on June 30, 2011 in accordance with the plan of liquidation approved by the Bankruptcy Court. NGHP is included in these basic financial statements as a blended component unit as DASNY's governing board serves as the governing board of NGHP and DASNY management has operational responsibility for NGHP.

On November 20, 2013, Atlantic Avenue Healthcare Property Holding Corporation (Atlantic Avenue) was established as a subsidiary of DASNY in the form of a public benefit corporation as a result of Interfaith Medical Center's default under its loan agreements and mortgages with DASNY. Interfaith Medical Center filed a petition in bankruptcy and Atlantic Avenue acquired certain real property assets subject to certain liabilities of Interfaith Medical Center on June 19, 2014 in accordance with the plan of reorganization approved by the Bankruptcy Court. Atlantic Avenue is included in these basic financial statements as a blended component unit as DASNY's governing board serves as the governing board of Atlantic Avenue and DASNY management has operational responsibility for Atlantic Avenue.

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

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Notes to Basic Financial Statements

March 31, 2017

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

(2) Summary of Significant Accounting Policies

(a) Basis of Reporting

DASNY's basic financial statements have been prepared in conformity with U.S. generally accepted accounting principles for governments as prescribed by the GASB, which is the primary standard setting body for establishing governmental accounting and financial reporting principles. During fiscal year 2017, DASNY has adopted GASB Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes and for applying fair value to certain investments, and disclosures related to all fair value measurements. Adoption of GASB 72 had no impact on DASNY's net position, however, it did result in additional disclosures regarding fair value measurements of investments and derivative instruments.

(b) Basis of Accounting

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

The basic financial statements are a compilation of almost 2,000 separate self balancing accounts, each related to either an individual series of outstanding bonds and notes or an individual operating account.

DASNY has elected the option under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations* to report conduit debt in its basic financial statements, other than certain tax exempt equipment leases (see note 7(c)). The more significant of DASNY's accounting policies are described below.

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

DORMITORY AUTHORITY OF THE STATE OF NEW YORK

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March 31, 2017

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

Any revenues and expenses that do not support DASNY's primary business functions are reported as nonoperating revenues and expenses.

(c) Cash and Cash Equivalents

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

(d) Investments

Investments are recorded at fair value, other than nonparticipating interest earning investment agreements and certificates of deposit, which are recorded at cost. Changes in fair value are included in Income on Investments Held for Institutions and nonoperating Income on Investments Held for DASNY in the Statement of Revenues, Expenses, and Changes in Net Position, except for changes in fair value related to investments in the construction accounts, as described in note 2(e).

(e) Leases and Loans Receivable

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

Leases and Loans Receivable represents accumulated construction costs for projects financed through bond and note issues, net of principal repayments received from institutions, institution contributions, and income on investments on construction accounts. Income on investments, including changes in fair value, on construction accounts is recorded as a reduction to this receivable since the earnings are generally used for project costs. The disbursement of project costs financed with bond proceeds is recorded as an increase to this receivable. The principal portion of debt service received from institutions is recorded as a reduction to this receivable. Also included in this receivable are bond issuance costs and premium or discount on the debt issued.

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March 31, 2017

Interest paid from bond proceeds during the construction period, capitalized interest, is recorded as an increase to the receivables. Capitalized interest was approximately \$23 million for the fiscal year ended March 31, 2017. Income earned on construction fund investments during the construction period is recorded as a reduction of the receivables. Construction fund investment income was approximately \$3 million for the fiscal year ended March 31, 2017.

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

DASNY maintains various asset management monitoring systems to evaluate the ability of institutions to meet their debt service payments and establishes loan loss reserves as necessary. All bond and note issues are special obligations of DASNY and many include credit enhancements to ensure payment of debt service to the bondholders (see note 7).

(f) Project Funds Receivable

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

(g) Other Receivables

Other Receivables consist of amounts due from institutions for various healthcare loans, DASNY administrative fees, other postemployment benefit obligations and accrued leave credits allocable to public clients, prepaid expenses, and bond issuance costs and project costs advanced from DASNY operating funds. Also included in Other Receivables are amounts due to NGHP from New York City Health and Hospitals Corporation related to a building lease. At March 31, 2017 DASNY recorded \$152 million as an allowance for uncollectible accounts primarily related to advances made to assist healthcare institutions which, for the most part, do not impact the Statement of Revenues, Expenses, and Changes in Net Position and for which there are no associated bonds.

(h) Capital Assets

DASNY's capital assets include land, buildings and equipment. Land is reported at its original acquisition cost. Buildings and equipment are stated at cost, less accumulated depreciation determined using the straight line method. It is DASNY's policy to capitalize buildings and equipment which have a cost in excess of \$50,000 at the date of acquisition. DASNY buildings are depreciated over 25 years, building improvements and renovations are depreciated over the remaining life of the building or lease, furniture and equipment are depreciated over 7 to 10 years, financial management system equipment,

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Notes to Basic Financial Statements

March 31, 2017

software and related costs are depreciated over 10 years, and other computer equipment and software are depreciated over 5 years. Atlantic Avenue's capital assets acquired from Interfaith Medical Center include land and buildings. Land is reported at its original acquisition cost. Buildings are stated at cost less accumulated depreciation using the straight line method. Buildings will be depreciated over their remaining lives which range from 4 to 19 years (see note 5).

(i) Amounts Held for Institutions

Certain public institutions provide monies directly to DASNY to be used for the construction or renovation of capital projects. Monies are also released from trustee accounts to DASNY for rehabilitation and renovation of projects. These monies and related earnings are included in Amounts Held for Institutions in the Statement of Net Position and are restricted for the purpose of making future improvements to projects. Also included in Amounts Held for Institutions are monies received from the State for purposes of helping hospitals in need and improving the healthcare delivery system, as well as, deposits of room rents collected by SUNY campuses to cover debt service and required reserves related to the SUNY Dormitory Facilities Revenue bond program. In addition, the obligation of NGHP to pay costs incurred in connection with properties owned by NGHP, or to redeem a portion of the North General Hospital Series 2003 Bonds, as well as the rent collected from Interfaith Medical Center to pay costs incurred in connection with properties owned by Atlantic Avenue, or to pay a portion of the debt service for the Interfaith Medical Center Series 1998D Bonds are included in Amounts Held for Institutions.

(j) Due to New York State

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

(k) Unearned Fees for Services

As provided for in the various financing documents for all programs other than nonprofit health care institutions, independent colleges, universities and other nonprofit institutions, and certain New York State agencies, excess fees collected over expenses incurred relating to DASNY are obligations of DASNY to the institutions. Such amounts are included in the Statement of Net Position in Unearned Fees for Services.

Conversely, any excess of expenses over fees collected are claims of DASNY against the institutions. Such amounts are included in the Statement of Net Position in Other Receivables.

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March 31, 2017

(l) Compensated Absences

Employees accrue vacation at varying rates ranging from 13 days per year to a maximum of 25 days per year. Overtime eligible employees accrue compensatory leave when they work between 37.5 hours and 40 hours in a workweek. A maximum of 225 hours of accrued vacation leave and a maximum of 240 hours of accrued compensatory leave is payable upon separation. Accrued expenses of \$4.1 million were recorded at March 31, 2017 for the estimated obligation for vacation and compensatory leave and are included in Other Long Term Liabilities in the Statement of Net Position. Related receivables of \$3.7 million, representing the portion of the liability allocable to public clients, are included in Other Receivables in the Statement of Net Position at March 31, 2017. In addition, DASNY is holding the remaining portion of the liability in a reserve established by the Board.

(m) Derivative Instruments

As a means to lower borrowing costs for the State and the City and to cost effectively support their strategies to diversify their debt portfolios with a combination of fixed and variable rate debt, at various times, DASNY enters into swap agreements. The related lease and financing agreements between DASNY and the State or the City include provisions that obligate the State or the City, subject to annual appropriation, to pay to DASNY all amounts due in connection with the swap agreements. Such swap repayment terms are considered derivative instruments with terms reciprocal to those of the swap agreements. When analyzed concurrently, because of the reciprocal terms, the swap agreements and the swap repayment terms in the lease and financing agreements with the State and the City are not considered associated with hedgeable items. Consequently, the swap agreements and the swap repayment terms in the lease and financing agreements are regarded as investment derivatives. Given that the fair value of the swap repayment terms offsets the fair value of the swap agreements and both are reported as investments, there is no net impact on the basic financial statements (see note 8).

(n) Restricted Net Position

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

(o) Revenue Recognition

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

(p) Income Taxes

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

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(g) Use of Estimates

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

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

(3) Cash, Cash Equivalents and Investments

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

- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by the United States of America;
- Obligations issued, or fully insured or guaranteed as to the payment of principal and interest, by any agency or instrumentality of the United States of America that are rated in at least the second highest rating category by at least two nationally recognized statistical rating organizations;
- Certificates or other instruments which evidence the ownership of or the right to receive the payment of the principal and guaranteed interest on obligations, wholly comprised of such obligations listed above;
- Obligations of any state or territory of the United States of America, any political subdivision of any state or territory of the United States of America, or any agency, authority, public benefit corporation or instrumentality of such state, territory or political subdivision, (i)(A) the interest on which is excludable from gross income under Section 103 of the Internal Revenue Code, which is not a “specified private activity bond” within the meaning of Section 57(a)(5) of the Internal Revenue Code (Exempt Obligations), or (B) which qualifies as a “Build America Bond” within the meaning of Section 54AA of the Internal Revenue Code, and (ii) are rated in at least the second highest rating category by at least two nationally recognized statistical rating organizations;
- Shares or interest in a mutual fund, partnership or other fund registered under the Securities Act of 1933, as amended, and operated in accordance with Rule 2a-7 of the Investment Company Act of 1940, as amended, whose objective is to maintain a constant share value of \$1.00 per share, that is rated in the highest short-term rating category by at least one nationally recognized statistical rating organization, and at the time such investment is made, such fund had a minimum asset value of \$500 million;
- Commercial paper issued by a domestic corporation rated in the highest short-term rating category by at least two nationally recognized statistical rating organizations and having maturities of not longer than 270 days from the date they are purchased;

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- Bankers' acceptances issued by a bank rated in the highest short-term rating category by at least two nationally recognized statistical rating organizations and having maturities of not longer than 365 days from the date they are purchased;
- Collateralized investment agreements; and
- Collateralized or insured certificates of deposit.

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

One of the primary objectives of DASNY's investment policy is to provide sufficient liquidity to meet the purposes for which the funds are being held. The majority of DASNY's investment portfolio consists of short-term investment securities to achieve its liquidity objective. Consequently, DASNY's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates since the majority of investments are short term in nature. Most investments are held to pay for construction expenditures with maturities based upon expectations of when funds will be used, or held on behalf of the various institutions to fund specific reserves or payment of debt service, or held for general operating purposes which generally do not exceed maturities of more than one year. Investment securities maturing beyond five years generally relate to restricted reserves that are typically invested with maturity dates that coincide with those of the underlying bonds and notes and are held under guaranteed investment contracts.

The amount of investments by type and maturity, at March 31, 2017 is presented in the following table. Investment maturity classifications in the table are based on the maturity of the underlying investments, which differs from their classification on the Statement of Net Position. Investments reported as current on the Statement of Net Position generally have maturities of one year or less, unless they are restricted by the underlying bond and note resolutions and are expected to be reinvested upon maturity, or the proceeds at maturity are generally used to support construction activities, in which case they are reported as investments, other than current.

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Investments reported as current on the Statement of Net Position at March 31, 2017 include \$813 million for debt service payments to be made in the fiscal year ended March 31, 2018 which is restricted by the underlying bond and note resolutions. Also included in investments reported as current at March 31, 2017 are investments held for DASNY operations, nonbond related capital projects and rehabilitation and renovation of projects totaling \$134 million.

| Investment type | Amount | Percentage of total | Maturities (in years) | | |
|---|---------------------|------------------------|-----------------------|----------------|---------------|
| | | | Less than 1 | 1-5 | More than 5 |
| (Dollars in thousands) | | | | | |
| Recorded at fair value: | | | | | |
| Obligations of the United States | | | | | |
| Government: | | | | | |
| U.S. Treasury notes/bonds | \$ 1,835,879 | 49.1% | \$ 1,835,784 | 95 | — |
| U.S. Treasury bills | 649,344 | 17.4 | 649,344 | — | — |
| U.S. Treasury strips | 233,680 | 6.2 | 233,537 | 143 | — |
| | <u>2,718,903</u> | <u>72.7</u> | <u>2,718,665</u> | <u>238</u> | <u>—</u> |
| Federal agency, notes and debentures: | | | | | |
| Federal National Mortgage Association (FNMA) | 269,729 | 7.2 | 204,324 | 29,477 | 35,928 |
| Federal Home Loan Bank (FHLB) | 475,806 | 12.7 | 432,977 | 42,829 | — |
| Federal Home Loan Mortgage Corp. (FHLMC) | 131,116 | 3.5 | 107,468 | 23,648 | — |
| Federal Farm Credit Bank Financing Corp. (FICO) | 31,569 | 0.8 | 22,907 | 8,662 | — |
| | 46,758 | 1.3 | 46,758 | — | — |
| | <u>954,978</u> | <u>25.5</u> | <u>814,434</u> | <u>104,616</u> | <u>35,928</u> |
| Municipal Bonds | <u>24,400</u> | <u>0.7</u> | <u>—</u> | <u>—</u> | <u>24,400</u> |
| Recorded at cost: | | | | | |
| Investment agreements | 31,581 | 0.8 | — | — | 31,581 |
| Certificates of deposit | 9,980 | 0.3 | 9,980 | — | — |
| Total | <u>\$ 3,739,842</u> | <u>100.0%</u> | <u>\$ 3,543,079</u> | <u>104,854</u> | <u>91,909</u> |

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

Federal Agency notes and debentures are issued by Government Sponsored Enterprises (GSEs), which carry the implicit guarantee of the United States federal government. At March 31, 2017, DASNY held approximately \$955 million in agency securities issued by several GSEs, all of which are rated in at least the second highest rating category by at least two of the nationally recognized statistical rating organizations.

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Under investment agreements, DASNY has invested monies with financial institutions at a fixed contract rate of interest. Because the security is essentially a written contract there is no rating available for such an instrument; however, at the time the agreements are entered into, the underlying providers are generally rated in at least the second highest rating category by at least one of the nationally recognized statistical rating organizations, in accordance with established investment policy and guidelines. All agreements are collateralized by investment securities held by a third party custodian either in DASNY's name or the name of the bond trustee, valued at 104% on required evaluation dates and no less than 100% at any given time.

Under certain circumstances, if the credit ratings of the investment agreement provider fall below a certain level, the provisions of the specific agreement require additional collateral to be posted, a substitute provider to be obtained, or give DASNY the right to terminate the agreement. As of March 31, 2017, there were three investment agreements totaling \$32 million invested with three providers with credit ratings below the level allowing one or more such actions. DASNY has requested the providers to post additional collateral securities necessary to satisfy the guidelines published by nationally recognized credit rating agencies for investment grade collateralized transactions in accordance with the terms of the related investment agreements or as otherwise required pursuant to the particular agreement. As of March 31, 2017, there was one investment agreement totaling \$12 million with a single provider, who posted additional collateral securities in accordance with the terms of the agreement. DASNY has not terminated the remaining agreements, but has reserved all of its rights and remedies under the agreements, in part because of an increase in exposure to reinvestment risk since interest rates equivalent to the interest rates paid on deposits held under the agreements cannot be obtained in the current market.

A portion of DASNY's investment portfolio is invested in several money market funds, which are open ended mutual funds that invest in short term debt securities and whose objective is to carry a net asset value (NAV) of \$1.00, allowing for withdrawals equal to the amount of the original deposit plus an allocable portion of any interest that may have been earned by the fund. These funds are reflected in the Statement of Net Position as a component of Cash and Cash Equivalents. DASNY's investment policy requires at the time of investment, each fund have a minimum asset value of \$500 million and be rated in the highest short term rating category by at least one nationally recognized statistical rating organization. At March 31, 2017, DASNY held approximately \$307 million in investments of this type which were all rated in the highest short term rating category by at least one nationally recognized statistical rating organization.

Custodial credit risk for deposits is the risk that in the event of a bank failure, DASNY's deposits may not be returned. DASNY's deposit policy for custodial credit risk includes minimum equity and rating requirements of, and diversification among, trustee and custodian banks. Certain deposits held in DASNY bank accounts are collateralized with securities held by custodian banks and certain are insured by federal depository insurance. As of March 31, 2017, DASNY had bank deposits of \$201 million of which \$137 million were uninsured and uncollateralized. The uninsured cash balances were primarily the result of amounts temporarily held pending debt repayment, disbursement, or investment.

Concentration of credit risk is the risk of loss attributed to the magnitude of DASNY's investment in a single issuer. DASNY's investment policy places no limit on the amount it may invest in any one issuer; however, DASNY does establish minimum ratings requirements for each underlying issuer other than the United States Government where they are generally required to be rated in no less than the second highest rating category by at least 2 nationally recognized statistical rating organizations. As of March 31, 2017, DASNY

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had more than 5% of its investments in FNMA and FHLB. These investments were 7.2% and 12.7% of the total investment portfolio, respectively, as of March 31, 2017.

DASNY uses an independent pricing source to determine the fair value of its investments. DASNY categorizes the fair value measurements of its investments within the fair value hierarchy established by generally accepted accounting principles. This three-tiered fair value hierarchy is based on the valuation inputs used to measure the fair value of the assets as follows:

Level 1: Quoted prices for identical investments in active markets;

Level 2: Observable inputs other than quoted market prices; and,

Level 3: Unobservable inputs.

At March 31, 2017, DASNY had the following fair value measurements:

| | | <u>Fair value measurement using</u> | |
|--|-----------------------|-------------------------------------|--------------------|
| | | <u>Quoted prices</u> | <u>Significant</u> |
| | | <u>in active</u> | <u>other</u> |
| | | <u>markets for</u> | <u>observable</u> |
| | | <u>identical assets</u> | <u>inputs</u> |
| | <u>March 31, 2017</u> | <u>(Level 1)</u> | <u>(Level 2)</u> |
| | | <u>(Dollars in thousands)</u> | |
| Investments by fair value level: | | | |
| U.S. Treasuries | \$ 2,718,903 | 347,215 | 2,371,688 |
| Federal Agencies | 954,978 | — | 954,978 |
| Municipal Bonds | 24,400 | — | 24,400 |
| | <hr/> | <hr/> | <hr/> |
| Total investments by fair value level | 3,698,281 | 347,215 | 3,351,066 |
| | <hr/> | <hr/> | <hr/> |
| Total investments measured at fair value | \$ <u>3,698,281</u> | <u>347,215</u> | <u>3,351,066</u> |

DASNY has no investments classified in the Level 3 category.

Investments classified in Level 1 are valued using prices quoted in active markets for those securities. Those classified in Level 2 are valued using the following approaches:

- U.S. Treasuries: quoted prices for identical securities in markets that are not active;
- Federal Agencies: matrix pricing based on the securities' relationship to benchmark quoted prices;
- Municipal bonds: quoted prices for identical securities in markets that are not active;

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Additionally, the \$307 million invested in money market mutual funds is measured using daily publicly published prices (Level 1 category).

(4) Leases and Loans Receivable

Leases and Loans Receivable represents amounts due in accordance with various financing agreements relating to the utilization of bond proceeds on projects.

Leases and Loans Receivable at March 31, 2017 consisted of the following (dollars in thousands):

| | |
|---|-----------------------------|
| Minimum payments to be received during the fiscal years ending March 31: | |
| 2018 | \$ 4,608,195 |
| 2019 | 4,590,393 |
| 2020 | 4,400,148 |
| 2021 | 4,559,019 |
| 2022 | 4,197,659 |
| Thereafter | <u>51,200,643</u> |
| Total minimum payments receivable | 73,556,057 |
| Less future financing income, unexpended bond proceeds, and other credits | <u>28,643,649</u> |
| Total leases and loans receivable, net | 44,912,408 |
| Less current leases and loans receivable, net | <u>4,080,624</u> |
| Long-term leases and loans receivable, net | <u><u>\$ 40,831,784</u></u> |

Leases and loans receivable financed by bonds and notes are collectible through periodic payments. The collection of this receivable from institutions is dependent on the ability of each institution to generate sufficient resources to service its bonds and notes. For hospitals and nursing homes, this is predicated in large part on their ability to obtain Medicare, Medicaid, or other third party reimbursement rates sufficient to offset operating costs. For higher education institutions, this is predicated in large part on their ability to maintain enrollment and tuition at levels adequate to offset operating costs. For certain public institutions, payment is dependent upon annual appropriation. In certain situations, various credit structures are in place to reduce the risk of nonpayment to bondholders should an institution be unable to pay its debt service (see note 7). Based on continuous monitoring of collectability, it has been determined that there is no need to establish reserves for loan losses at March 31, 2017.

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(5) Capital Assets

Capital assets, net at March 31, 2017 consisted of the following (dollars in thousands):

| | <u>2016</u> | <u>Additions</u> | <u>Deletions</u> | <u>2017</u> |
|--------------------------------|-------------------------|-----------------------|------------------|----------------------|
| Capital assets: | | | | |
| Land: | | | | |
| DASNY | \$ 1,083 | — | — | 1,083 |
| Atlantic avenue | 1,306 | — | — | 1,306 |
| Buildings: | | | | — |
| DASNY | 23,388 | — | — | 23,388 |
| Atlantic avenue | 34,366 | — | — | 34,366 |
| Equipment— DASNY | <u>9,734</u> | <u>279</u> | — | <u>10,013</u> |
| Total capital assets | <u>69,877</u> | <u>279</u> | — | <u>70,156</u> |
| Less accumulated depreciation: | | | | |
| DASNY | 24,026 | 786 | — | 24,812 |
| Atlantic avenue | <u>6,055</u> | <u>3,200</u> | — | <u>9,255</u> |
| Total accumulated depreciation | <u>30,081</u> | <u>3,986</u> | — | <u>34,067</u> |
| Capital assets, net | \$ <u><u>39,796</u></u> | <u><u>(3,707)</u></u> | — | <u><u>36,089</u></u> |

Depreciation expense is included in Maintenance and Operations expense in the Statement of Revenues, Expenses, and Changes in Net Position.

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(6) Long-Term Liabilities

DASNY's long-term liabilities as of March 31, 2017, including the current portion, are comprised of the following (dollars in thousands):

| | <u>Beginning balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Ending balance</u> | <u>Due within one year</u> |
|-----------------------------------|------------------------------|------------------|------------------|---------------------------|--------------------------------|
| Bonds and notes payable | \$ 47,286,010 | 6,630,485 | (6,059,848) | 47,856,647 | 4,080,624 |
| Other long-term liabilities: | | | | | |
| Accrued retainage | \$ 45,191 | 19,668 | (15,991) | 48,868 | 2,266 |
| Accrued arbitrage | 245 | — | (162) | 83 | — |
| Compensated absences | 4,057 | 48 | — | 4,105 | — |
| OPEB liability | 110,235 | 18,084 | (4,391) | 123,928 | — |
| Net pension liability | 5,259 | 29,551 | (10,691) | 24,119 | — |
| Other | 23,656 | — | (1,667) | 21,989 | 1,824 |
| Total other long-term liabilities | \$ 188,643 | 67,351 | (32,902) | 223,092 | 4,090 |
| Due to New York State | \$ 172,584 | 1,727,425 | (1,707,850) | 192,159 | 180,765 |
| Amounts held for institutions | \$ 568,948 | 887,679 | (849,373) | 607,254 | 302,406 |

(7) Bonds and Notes Outstanding

(a) Description of Bonds and Notes

Bonds and notes are special obligations of DASNY payable solely from payments required to be made by or for the account of the institution for which the particular special obligations were issued. Such payments are pledged or assigned to the trustees for the holders of the respective special obligations. DASNY has no obligation to pay its special obligations other than from such payments. In certain instances, DASNY has a lien on certain land and buildings and revenues to secure the payment of principal and interest on the outstanding bonds and notes. In addition, certain bond and note issues

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include credit enhancements. The following summarizes bonds and notes outstanding at March 31, 2017 by primary security feature (dollars in thousands):

| | Amounts of debt outstanding |
|--|--|
| Backed by letters of credit | \$ 1,240,565 |
| Insured by municipal bond insurance | 1,843,679 |
| Backed by mortgages insured by the State of New York Mortgage Agency | 113,990 |
| Backed by mortgages insured by agencies of the federal government | 333,440 |
| Payable from State and local government appropriations, state service contracts or designated income funds | 28,589,009 |
| Backed by pledged assets and revenues or payments | <u>15,735,964</u> |
| Total | <u>\$ 47,856,647</u> |

Fixed rate and variable rate bonds and notes are due in various installments through the fiscal year ending March 31, 2051 and bear interest at variable rates currently ranging from 0.078% per annum to 1.06% per annum, and fixed interest rates currently ranging from 0.75% per annum to 7.875% per annum.

As of March 31, 2017, DASNY had a total of \$2.0 billion outstanding variable rate demand bonds, of which \$1.2 billion was secured by direct pay bank letters of credit, \$486 million was secured by appropriations or by pledged assets and revenues or by payments of the respective clients and with liquidity provided by standby purchase agreements, \$146 million was secured by agencies of the federal government, and \$230 million was secured by pledged assets and revenues or by payments of the respective clients acting as their own liquidity provider.

The variable rate demand bonds are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest upon notice and delivery (tender) of the bonds to the remarketing agent being provided within a period of time as specified under the respective bond documents. The remarketing agent is required to use its best efforts to sell the repurchased bonds at a price equal to 100% of the principal amount by adjusting the interest rate. For those bonds secured by a direct pay letter of credit, the trustee is required to draw an amount sufficient to pay the purchase price of bonds delivered to it and to reimburse the letter of credit provider from monies available from remarketing and from monies held under the bond resolution. The direct pay letters of credit relevant to variable rate bonds expire at various times through September 11, 2021. For those bonds with liquidity provided by a standby bond purchase agreement, secured by an agency of the federal government, or where the conduit borrower is acting as its own liquidity provider, the trustee is required to draw from monies held under the bond resolution or from the liquidity provider an amount sufficient to pay the purchase price of bonds delivered to it which are unable to be remarketed. The standby bond purchase agreements expire at various times through November 23, 2020.

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DASNY issues debt on behalf of both public, primarily the State, and private institutions. DASNY has elected the option under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, to report conduit debt, primarily issued on behalf of private institutions, in its basic financial statements. In accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended, DASNY is included in the financial statements of the State as a discretely presented component unit. As such, bonds issued on behalf of the State are not considered conduit debt. Under GASB Interpretation No. 1, *Demand Bonds Issued by State and Local Governmental Entities*, variable rate demand bonds should be reported as long-term debt if certain conditions are met; otherwise, they should be reported as a current liability. In the case of its conduit variable rate demand bonds, DASNY is not a party to the liquidity or takeout agreement with the provider. All liquidity provider fees are paid directly by the conduit borrower and are not DASNY's obligation, and, in some cases, the conduit borrower acts as its own liquidity provider. Such bonds, and the related leases and loans receivable, are classified as current on the Statement of Net Position. With respect to variable rate demand bonds issued on behalf of its public clients, those bonds secured by liquidity or takeout agreements that expire within one year are also classified as current on the Statement of Net Position. All variable rate demand bonds, and the related leases and loans receivable, are disclosed in note 7(b) Maturities of Bond and Notes and note 4 Leases and Loans Receivable. As of March 31, 2017, approximately \$1.8 billion of variable rate demand bonds were classified as current on the Statement of Net Position.

DASNY, on behalf of the State, has purchased letters of credit and standby purchase agreements from various providers to ensure the liquidity needs of variable rate demand bonds can be met. As of March 31, 2017, these agreements covered \$635 million of variable rate demand bonds outstanding with costs ranging from 0.44% per annum to 0.475% per annum of the amount of credit provided. In addition, remarketing agents receive annual fees ranging from 0.05% per annum to 0.1% per annum of the outstanding principal amount of the bonds. These agreements have expiration dates ranging from December 8, 2017 to January 8, 2020.

If the remarketing agent is unable to resell any bonds that are tendered by the bondholders within six months of the tender date, each agreement with the applicable liquidity provider requires the bonds to accelerate and be payable in 6 to 10 equal semi-annual principal repayments bearing an adjustable interest rate equal to the higher of the bank's prime lending rate or an index tied to the Federal Funds rate. If all the takeout agreements were to be exercised because all outstanding \$635 million demand bonds were put and not resold, DASNY would be required to pay between \$96 million and \$147 million per year in principal repayments plus interest for 5 years under the installment loan agreements. DASNY is only obligated to make such payments from monies paid to it by the State pursuant to financing agreements related to the bonds.

DASNY, on behalf of the City, has purchased a standby purchase agreement from a provider to ensure the liquidity needs of variable rate demand bonds can be met. As of March 31, 2017, this agreement covered \$126 million of variable rate demand bonds outstanding at a cost of 0.57% per annum of the amount of credit provided. In addition, the remarketing agent receives annual fees of 0.08% per annum of the outstanding principal amount of the bonds. This agreement expires on November 23, 2020.

If the remarketing agent is unable to resell any bonds that are tendered by the bondholders within three months of the tender date, the agreement with the liquidity provider requires the bonds to accelerate

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and be payable in 20 equal quarterly principal repayments bearing an adjustable interest rate equal to the higher of the bank's prime lending rate or an index tied to the Federal Funds rate. If the takeout agreement was to be exercised because all outstanding \$126 million demand bonds were put and not resold, DASNY would be required to pay \$25 million per year in principal repayments plus interest for 5 years under the installment loan agreement. DASNY is only obligated to make such payments from monies paid to it by the City pursuant to financing agreements related to the bonds.

Certain bonds and notes have the respective institution's cash and investments, surety bonds, or letters of credit pledged to collateralize certain reserve requirements and are not included in the Statement of Net Position. As of March 31, 2017, the amounts pledged are as follows (dollars in thousands):

| | | |
|--------------------------------------|----|---------|
| Cash and investments (at fair value) | \$ | 36,550 |
| Surety bonds | | 167,823 |
| Letters of credit | | 26,316 |

Under certain circumstances, if the credit ratings of the surety bond provider fall below a certain level, the related reserve funds are required to be funded with cash and investments, deposits of which are to be made by the ultimate obligor on the bonds in ten equal semi annual installments beginning on the first day of the bond year following such downgrade. As of March 31, 2017, the credit ratings of five surety bond providers, who had issued a total of \$31 million in surety bonds, had fallen below the level requiring such actions. Funding of the related reserve funds commences on varying dates based on the provisions of the respective bond resolutions. There are no similar provisions under the terms of letters of credit. If the rating of the letter of credit provider is downgraded, the ratings on the related bonds may be downgraded.

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(b) Maturities of Bonds and Notes

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

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------|----------------------|-------------------|-------------------|
| Fiscal years ending March 31: | | | |
| 2018 | \$ 2,405,832 | 2,202,363 | 4,608,195 |
| 2019 | 2,489,836 | 2,100,557 | 4,590,393 |
| 2020 | 2,395,665 | 2,004,483 | 4,400,148 |
| 2021 | 2,670,302 | 1,888,717 | 4,559,019 |
| 2022 | 2,428,092 | 1,769,567 | 4,197,659 |
| 2023–2027 | 11,575,859 | 7,146,452 | 18,722,311 |
| 2028–2032 | 9,096,518 | 4,610,103 | 13,706,621 |
| 2033–2037 | 7,366,357 | 2,638,557 | 10,004,914 |
| 2038–2042 | 5,449,778 | 1,100,014 | 6,549,792 |
| 2043–2047 | 1,753,258 | 225,334 | 1,978,592 |
| 2048–2052 | 225,150 | 13,263 | 238,413 |
| Total | \$ <u>47,856,647</u> | <u>25,699,410</u> | <u>73,556,057</u> |

Bonds and notes maturing during the fiscal year ending March 31, 2017 as shown in the table above do not correspond to the amount reported as the current portion of bonds and notes outstanding in the Statement of Net Position due to a difference in classification of certain variable rate demand obligations. The amount reflected above is based on the stated maturity dates for all bonds and notes outstanding while the current portion of bonds and notes outstanding in the Statement of Net Position also includes the entire principal amount outstanding of variable rate demand obligations issued on behalf of DASNY's conduit borrowers as well as those variable rate demand obligations relevant to public programs that have liquidity agreements expiring during the upcoming fiscal year and private placement bonds in term rate mode with a mandatory tender during the upcoming fiscal year.

Interest reflected above for variable rate debt was projected using the interest rates in effect as of March 31, 2017.

(c) Tax-Exempt Leasing Program

DASNY offers a tax exempt leasing program (TELP) that utilizes DASNY's tax exempt financing authority. In a TELP lease, DASNY, as the lessee, subleases the equipment to the borrower and thereafter has no security interest in the equipment. The repayments are assigned to and made directly to the lessor. The repayments are nontaxable income to the lessor. The leases do not constitute DASNY or State debt. Since DASNY assigns both its security interest in the equipment and its rights to receive sublease repayments to the lessor, and DASNY has no active role in managing or administering the leases, the TELP leases are not included in the Statement of Net Position. The total amount of TELP leases outstanding as of March 31, 2017 was approximately \$654 million.

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(8) Derivative Instruments

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

At March 31, 2017, DASNY had a total of 25 pay-fixed, receive-variable swap agreements outstanding with a total notional amount of \$736 million and a negative fair value of \$100 million and reciprocal swap repayment terms in lease and financing agreements with like values. DASNY did not enter into any new swap agreements or related lease and financing agreements during the fiscal year ended March 31, 2017.

The table below summarizes the fair values, notional amounts and changes in fair value of derivative instruments outstanding as of March 31, 2017. Bracketed amounts denote negative values.

| <u>Type of derivative instrument</u> | <u>Notional amounts (in thousands)</u> | <u>Fair value classification</u> | <u>Swap fair value (in thousands)</u> | <u>Change in fair value classification</u> | <u>Change in fair value (in thousands)</u> |
|--------------------------------------|--|--------------------------------------|---|--|--|
| Investment derivatives: | | | | | |
| Pay-fixed, receive-variable swaps: | | | | | |
| Swap agreements | \$ 735,932 | Investment | \$ (99,656) | Investment income | \$ (44,261) |
| Pay-variable, receive-fixed swaps: | | | | | |
| Lease and financing agreements | 735,932 | Investment | 99,656 | Investment income | 44,261 |
| Grand total | | | \$ — | | \$ — |

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

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future net settlement on the agreements. The inputs used in the fair value measurement of the derivative investments are Level 2 category.

Credit risk – As of March 31, 2017, DASNY was not exposed to credit risk on the swap agreements with \$100 million in negative fair values. Since changes in interest rates affect the fair values of swap agreements, it is possible that swap agreements with negative fair values become positive, and that swap agreements with positive fair values increase in value, which would expose DASNY to increased credit risk. DASNY's potential credit risk on the swap agreements is reduced due to the lease and financing agreements in place that obligate the State or City to pay DASNY, subject to annual appropriation, all amounts due in connection with the swap agreements. Certain swap agreements include setoff provisions should a swap agreement terminate. These setoff provisions permit, at DASNY's option, or in some cases, at the option of the nondefaulting or nonaffected party, all swap agreements with the given counterparty related to the bonds to terminate and to net the transactions' fair values so that a single sum will be owed by, or owed to, DASNY. Should the counterparties fail to perform according to the terms of the swap contracts, as of March 31, 2017, DASNY faces a maximum credit risk exposure related to the swaps' net positive fair value of \$0.

As of March 31, 2017, DASNY was exposed to credit risk on the swap repayment terms with \$100 million in positive fair values because the State's and the City's obligations under the lease and financing agreements are subject to annual appropriation.

DASNY guidelines require that, for swap agreements entered into under provisions of Article 5 D of the State Finance Law, counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories and ratings which are obtained from any other nationally recognized statistical rating agency for such counterparty shall also be within the three highest investment grade categories, or the payment obligations of the counterparty are unconditionally guaranteed by an entity with such credit ratings. DASNY guidelines require that, for swap agreements entered into under the provisions of Section 2926 of the Public Authorities Law, counterparties have credit ratings from at least two nationally recognized statistical rating agencies that are within the three highest investment grade categories, or the payment obligations of the counterparty are unconditionally guaranteed by an entity with such credit ratings. In the event that a counterparty's ratings are reduced below certain ratings thresholds, the counterparty is required to comply with the collateral requirement provisions whereby the counterparty will be required to post collateral in an amount equal to 102% of the swap termination value under certain conditions. Collateral is required to be posted at any time that the counterparty does not have at least one rating in the second highest rating category, or any of the ratings assigned to the counterparty are below the three highest rating categories, and credit exposure exists on the valuation date. DASNY monitors the values of the related swap agreements on a daily basis to determine if collateral is required to be posted. As of March 31, 2017, there was no requirement for collateral to be posted. Collateral on all swap agreements related to State supported bonds is to be held by a third party custodian. Collateral on all swap agreements related to City supported bonds may be held by either a third party custodian or DASNY. All collateral may be in the form of direct obligations of, or obligations the principal of and interest on which are guaranteed by, the United States of America, or other securities permitted by law and agreed upon in writing by DASNY and the counterparty.

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The credit ratings for DASNY's counterparties at March 31, 2017 are as follows:

| | <u>Moody's</u> | <u>S&P</u> | <u>Fitch</u> |
|--|----------------|----------------|--------------|
| Counterparties: | | | |
| Citibank, N.A., New York | A1 | A+ | A+ |
| Goldman Sachs Mitsui Marine Derivative Products, L.P. | Aa2 | AA- | N/A |
| JPMorgan Chase Bank | Aa3 | A+ | AA- |
| Merrill Lynch Derivative Products AG | Aa3 | AA | NR |
| Morgan Stanley Capital Services, Inc. | A3 | BBB+ | A |
| UBS AG | A1 | A | A |
| New York State General Obligations New York State Mental Health Services Facilities Improvement Revenue Bonds | Aa1 | AA+ | AA+ |
| New York City General Obligations | NR | AA | AA |
| | Aa2 | AA | AA |

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

(9) Debt Refundings

DASNY has issued bonds on behalf of various institutions to defease existing revenue bonds. Under the terms of the resolutions for the defeased bonds, investments have been deposited in irrevocable trusts with trustee banks to provide sufficient amounts to be used solely for the payment of scheduled debt service on these bonds. As a result, the refunded bonds, certain of which are still held by investors, are considered to be defeased pursuant to the applicable bond resolutions and the liabilities for those bonds and related investments have been removed from the Statement of Net Position. As of March 31, 2017, outstanding revenue bonds of approximately \$5.1 billion were considered defeased under existing accounting standards; accordingly, such bonds and the related investments placed in trust are not included in the basic financial statements.

The refundings during the fiscal year ended March 31, 2017, involved the issuance of fixed rate and variable rate bonds to refund previously issued fixed rate bonds. The refundings totaled \$2.82 billion par value of bonds (new bonds) to refund \$2.01 billion par value of outstanding bonds (refunded bonds). The proceeds of \$3.4 billion from the sale of new bonds, including net original issue premium, plus \$123 million of refunded bond monies and deposits from institutions, were deposited in irrevocable trusts (escrow accounts) and used to purchase United States Government securities as described above. The new bonds also funded reserve requirements and provided for costs of issuance. These refundings included the issuance of \$2.76 billion par value of new fixed rate bonds with an average interest rate of 4.53% to refund \$1.94 billion par value of outstanding fixed rate bonds with an average interest rate of 5.13%. The proceeds of \$3.3 billion from the sale of new fixed rate bonds, including net original issue premium, plus an additional

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\$109 million of refunded fixed rate bond monies and deposits from institutions, were used to fund the related escrow accounts. These fixed rate refundings resulted in a decrease of \$565 million in aggregate future debt service payments and a net present value economic gain of \$404 million for the fiscal year ended March 31, 2017. The remaining refundings involved either the issuance and/or the refunding of variable rate bonds and included a total of \$59 million par value of new bonds to refund \$69 million par value of outstanding bonds. The proceeds of \$58 million from the sale of these bonds, including net original issue premium, plus an additional \$14 million of refunded bond monies and deposits from institutions, were used to fund the related escrow accounts. Since these refundings involved variable rate bonds, neither the difference between the cash flows required to service the new bonds and those required to service the refunded bonds, nor the present value gain or loss can be reasonably determined as of March 31, 2017.

(10) Commitments and Contingencies

(a) *Litigation*

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

(b) *Construction Commitments*

In the normal course of business, DASNY enters into various commitments for construction costs. Such commitments, when added to the costs already incurred, are not expected to exceed the total amount of indebtedness issued and other available funding, including future authorized bond issues.

Commitments for future construction costs totaled approximately \$732 million at March 31, 2017.

(c) *Risk Management*

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

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(11) Retirement Plans

(a) *New York State and Local Employees' Retirement System*

(i) *Description of Plan*

DASNY participates in the New York State and Local Employees' Retirement System (ERS) and the Public Employees' Group Life Insurance Plan (the Systems) administered by the New York State and Local Retirement System. These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller promulgates rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their monies. The Systems issue a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, New York 12236 or on the Comptroller's website at www.osc.state.ny.us/pension. For financial reporting purposes, the Systems are presented on an aggregated basis.

(ii) *Benefits*

The classes of employees covered under the ERS range from Tiers 1–6. In order to be eligible for retirement, all members must be at least age 55 and have a minimum of 5 years of service for Tiers 2–4, and 10 years of service for Tiers 5 and 6. There is no minimum service requirement for Tier 1 members. Generally, all members are eligible for early retirement at age 55 with a benefit calculation of 1.67% of final average salary for each year of service. Benefit calculations for Tiers 1 and 2 members with greater than 20 years of service credit, or Tiers 3–5 members between 20 and 30 years of service credit, is 2.0% of final average salary for each year of service. Tier 3–5 members are eligible for an additional 1.50% of final average salary applied to each year of service over 30 years. Generally, Tier 6 member retirement benefits are 1.75% of final average salary for each year of service for members with 20 years of service, with an additional 2.0% of final average salary for each year of service over 20 years. For Tiers 1–5, final average salary is the average of the wages earned in the three highest consecutive years of employment. Tier 6 final average salary is the average of the wages earned in the five highest consecutive years of employment.

Other benefits provided under the ERS include: ordinary disability, accidental disability, and post retirement benefit increases.

(iii) *Funding Policy*

Funding of the Systems is accomplished through member and employer contributions and investment earnings, according to the New York State Retirement and Social Security Law.

Plan members who joined the Systems before July 27, 1976 are not required to make contributions. Those joining on or after July 27, 1976 and before January 1, 2010 who have less than 10 years of service or membership are required to contribute 3% of salary. Those joining on or

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after January 1, 2010, and before April 1, 2012, are required to contribute 3% throughout active service. Persons joining on or after April 1, 2012, are required to contribute between 3% and 6% throughout active service. Employers are required to contribute at an actuarially determined rate. Fully contributed average employer contribution rate for the Tiers of 18.2% was applicable to the annual covered payroll for the year ended March 31, 2016. DASNY's required contribution for the fiscal year ended March 31, 2017 was \$6.9 million and was 100% of the contribution required.

(iv) *Net Pension Liability*

DASNY's proportionate share of the Systems' net pension liability reported as of March 31, 2017 was \$24.1 million. The net pension liability was measured as of March 31, 2016. DASNY's proportion of the net pension liability was based on DASNY's projected long term contribution effort compared to the projected total long term contribution effort of all employers in the Systems. At March 31, 2016, DASNY's proportion of the net pension liability was 0.15% compared to 0.16% for the March 31, 2015 measurement date.

For purposes of measuring the net pension liability and related pension amounts, information about the fiduciary net position of the Systems and additions to/deductions from the Systems' fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value.

(v) *Actuarial Information*

The total pension liability for the March 31, 2016, measurement date was determined by using an actuarial valuation as of April 1, 2015, with update procedures used to roll forward the total pension liability to March 31, 2016. This actuarial valuation used the following assumptions:

| | |
|--|--|
| Actuarial cost method | Entry age normal |
| Inflation | 2.5 percent |
| Salary scale | 3.8 percent indexed by service |
| Investment rate of return, including inflation | 7.0 percent compounded annually, net of investment expenses |
| Cost of living adjustments | 1.3 percent annually |
| Decrement | Developed from the Plan's 2015 experience study of the Period April 1, 2010 through March 31, 2015 |
| Mortality improvement | Society of Actuaries Scale MP-2014 |

The long-term expected 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 pension plan 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 rate of return by the largest asset allocation percentage and by adding expected inflation.

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Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of March 31, 2016 are summarized below:

| Asset | Target Allocation | Long-term expected real rate of return |
|----------------------------|--------------------------|---|
| Domestic equity | 38% | 7.30% |
| International equity | 13 | 8.55 |
| Private equity | 10 | 11.00 |
| Real estate | 8 | 8.25 |
| Absolute return strategies | 3 | 6.75 |
| Opportunistic portfolio | 3 | 8.60 |
| Real assets | 3 | 8.65 |
| Bonds and mortgages | 18 | 4.00 |
| Cash | 2 | 2.25 |
| Inflation Indexed bonds | 2 | 4.00 |
| | <u>100%</u> | |

The discount rate used to calculate the total pension liability at March 31, 2016 was 7% as compared to 7.5% for the March 31, 2015 measurement date. 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 determined. Based upon the assumptions, the Systems' 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.

The following presents DASNY's current period net pension liability calculated using the current period discount rate assumption of 7%, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage point lower (6%) or 1 percentage point higher (8%) than the current assumption (dollars in thousands):

| | 1% Decrease (6.0%) | Current assumption (7.0%) | 1% Increase (8.0%) |
|-------------------------------------|-------------------------------|--------------------------------------|-------------------------------|
| DASNY net pension liability (asset) | \$ 54,385 | 24,119 | (1,456) |

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(vi) *Deferred Outflows of Resources and Deferred Inflows of Resources*

At March 31, 2017, DASNY reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (dollars in thousands):

| | <u>Deferred outflows of resources</u> | <u>Deferred inflows of resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 121 | 2,859 |
| Changes of assumptions | 6,432 | — |
| Net difference between projected and actual earnings on plan investments | 14,311 | — |
| Changes in proportion and differences between DASNY contribution and proportionate share of contributions | 1,164 | 116 |
| Contributions subsequent to the measurement date | <u>6,875</u> | <u>—</u> |
| Total deferred outflows of resources | \$ <u><u>28,903</u></u> | <u><u>2,975</u></u> |

Deferred outflows of resources of \$6.9 million, resulting from contributions subsequent to the measurement date will be recognized as a reduction to net pension liability in the year ended March 31, 2018.

The remaining amounts reported as deferred outflows of resources related to pensions will be recognized in future pension expense for the fiscal years ending March 31 as follows (dollars in thousands):

| | |
|-------|-------------------------|
| 2017 | \$ 4,846 |
| 2018 | 4,847 |
| 2019 | 4,847 |
| 2020 | <u>4,513</u> |
| Total | \$ <u><u>19,053</u></u> |

(vii) *Total Pension Expense*

Total pension expense includes certain current period changes in the total net pension liability, projected earnings on pension plan investments and the amortization of deferred outflows of resources and deferred inflows of resources for the current period. The collective pension expense reported for the period ended March 31, 2017 is \$8.9 million.

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(b) Optional Retirement Plan

Unrepresented DASNY employees who have estimated annual salary of \$75,000 or greater may participate in an Optional Retirement Program (ORP) under IRS Section 401(a), which is a multiple employer, defined contribution plan administered by separate vendors – TIAA CREF, Fidelity, Metropolitan Life, VALIC, and VOYA. DASNY's plan is administered exclusively by TIAA CREF. ORP employer and employee contributions are dictated by State law. The ORP provides benefits through annuity contracts and provides retirement and death benefits to those employees who elected to participate in an ORP. Benefits are determined by the amount of individual accumulations and the retirement income option selected. All benefits generally vest after the completion of one year of service if the employee is retained thereafter. Employer contributions are not remitted to an ORP plan until an employee is fully vested. As such there are no forfeitures reported by these plans if an employee is terminated prior to vesting. Employees who joined an ORP after July 27, 1976, and have less than ten years of service or membership are required to contribute 3% of their salary. Those joining on or after April 1, 2012 are required to contribute between 3% and 6%, dependent upon their salary, for their entire working career. Employer contributions range from 8% to 15% depending upon when the employee was hired. Employee contributions are deducted from their salaries and remitted on a current basis to the respective ORP. Pension expense for the plan for the period ended March 31, 2017 is \$55 thousand.

(12) Postemployment Benefits

(a) Plan Description

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

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

DASNY pays 100% of the cost of single coverage and 75% of the cost of dependent coverage for employees who retired before January 1, 1983. DASNY pays 90% of the cost of single coverage and 75% of dependent coverage for employees who retire on or after January 1, 1983. A vestee is a DASNY employee vested as a member of the retirement system administered by the State, who has withdrawn from State service after meeting DASNY's minimum service requirement but has not met the

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age requirement for continuing health insurance. During the fiscal year ended March 31, 2017, DASNY had an average of 303 retirees, 25 survivors and 1 vestee. At March 31, 2017, DASNY employed 152 employees eligible for retiree benefits. NYSHIP does not issue a stand alone financial report and NYSHIP's agent activities are included within the financial statements of the State of New York.

DASNY accounts for its other postemployment benefits (OPEB) obligations in accordance with the provisions of GASB Statement No. 45, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The first actuarial valuation date was April 1, 2006 and the most recent actuarial valuation date was April 1, 2016. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Examples include assumptions about employment mortality and the healthcare cost trend rate. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about the plan.

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

The Patient Protection and Affordable Care Act (PPACA) was signed into law on March 23, 2010. On March 30, 2010 the Health Care and Education Reconciliation Act of 2010 (HCERA), which amends certain aspects of PPACA was signed into law. The new laws have a financial impact on employers who sponsor postretirement healthcare benefits and therefore have been reflected in DASNY's actuarial valuations since April 1, 2010. An adjustment was made to reflect the effect of the benefit mandates as well as the excise tax that is applicable starting in 2018. The excise tax is 40% of the excess amount by which the plan's healthcare cost exceeds limits as defined in the legislation. The 2018 limits are \$10,200 for active employees with single coverage and \$11,850 for retirees with single coverage. The limits for family coverage are \$27,500 and \$30,950 for active employees and retirees, respectively. The limits are scheduled to increase with the Consumer Price Index (CPI) plus 1% in 2019 and with CPI for all years thereafter. Based on a comparison of projected premiums to these thresholds, DASNY expects to pay an excise tax in 2020.

(b) Funding

DASNY has not funded a qualified trust or its equivalent as required by GASB Statement No. 45, therefore, benefits are funded on a pay as you go basis. DASNY's operating expenses are paid from fees collected from clients. As of March 31, 2017, the portion of the OPEB liability allocable to certain public clients was 89% and will be paid from future fees to be collected. A receivable in the amount of \$114.4 million is included in Other Receivables—noncurrent in the Statement of Net Position at March 31, 2017. A reserve for the portion of the OPEB liability allocable to nonprofit health care institutions, independent colleges, universities, and other nonprofit institutions, and certain New York

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State agencies was funded with \$3.8 million as of March 31, 2017, and \$9.8 million was due to the reserve from client program operating funds for the related change in the OPEB liability.

(c) Actuarial Methods and Assumptions

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

In the April 1, 2016 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 3.3% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 6.25% (net of administrative expenses) including inflation, declining each year to an ultimate trend rate of 4.75%. Both rates include a 2.75% inflation assumption. DASNY's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. DASNY elected to use an amortization period of thirty years.

(d) Annual OPEB Cost and Net OPEB Obligation

DASNY's annual OPEB cost and net OPEB obligation of the plan as of March 31, 2017, 2016 and 2015 are as follows (dollars in thousands):

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|--------------------------|--------------------------|-------------------------|
| Annual Required Contribution: | | | |
| Normal cost | \$ 9,044 | 8,652 | 8,375 |
| Amortization of unfunded AAL | 9,361 | 8,458 | 8,022 |
| Interest on net OPEB obligation | 3,637 | 3,455 | 2,999 |
| Adjustment to annual required contribution | <u>(3,958)</u> | <u>(3,498)</u> | <u>(3,036)</u> |
| Annual OPEB cost | 18,084 | 17,067 | 16,360 |
| Contributions made | <u>(4,391)</u> | <u>(3,896)</u> | <u>(3,528)</u> |
| Increase in net OPEB obligation | 13,693 | 13,171 | 12,832 |
| Net OPEB obligation, beginning of year | <u>110,235</u> | <u>97,064</u> | <u>84,232</u> |
| Net OPEB obligation, end of year | \$ <u><u>123,928</u></u> | \$ <u><u>110,235</u></u> | \$ <u><u>97,064</u></u> |
| Percentage of Annual OPEB Cost contributed | 24.28% | 22.83% | 21.56% |

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(e) Funded Status and Funding Progress

The funded status of the plan as of the most recent actuarial valuation, April 1, 2016, was as follows (dollars in thousands):

| | | |
|---|----|----------------|
| Actuarial Accrued Liability (AAL) | \$ | 252,395 |
| Funded OPEB plan assets | | <u>—</u> |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ | <u>252,395</u> |
| Funded ratio | | —% |
| Covered payroll | \$ | 45,494 |
| UAAL as percentage of covered payroll | | 554.80% |

(13) Unrestricted Net Position

Unrestricted Net Position includes amounts that are not appropriate for operating expenses and are Board designated for a specific future use. Designations at March 31, 2017 are as follows (dollars in thousands):

Designated:

| | | |
|--|----|--------------|
| Health care institution assistance | \$ | 27,360 |
| Advance funding new projects | | 5,000 |
| Coverage for financial risks associated with directors and officers liability insurance policies | | 1,950 |
| Women/Minority Business Enterprises capital access, training and development | | 3,816 |
| Reserve for replacement of corporate facilities | | 7,411 |
| Reserve for 21st Century Technology Transformation | | 2,960 |
| Reserve for Evolution | | <u>3,739</u> |
| Total designated | | 52,236 |

Undesignated

| | | |
|---------------------------------|----|---------------|
| | | <u>26,919</u> |
| Total net position unrestricted | \$ | <u>79,155</u> |

REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)

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

Required Supplementary Information

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

(Dollars in millions)

| <u>Actuarial valuation date</u> | <u>Actuarial value of assets (a)</u> | <u>Actuarial accrued liability (AAL) - entry age normal cost method (b)</u> | <u>Unfunded AAL (UAAL) (b - a)</u> | <u>Funded ratio (a/b)</u> | <u>Covered payroll (c)</u> | <u>UAAL as a percentage of covered payroll ((b - a)/c)</u> |
|---------------------------------|--------------------------------------|---|------------------------------------|---------------------------|----------------------------|--|
| April 1, 2016 | \$ — | 252 | 252 | —% | \$ 45 | 555% |
| April 1, 2014 | — | 223 | 223 | — | 43 | 520 |
| April 1, 2012 | — | 222 | 222 | — | 50 | 489 |

See accompanying independent auditors' report.

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

Required Supplementary Information

Schedule of Proportionate Share of the Net Pension Liability
New York State and Local Employees' Retirement System (Unaudited)

(Dollars in thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|
| DASNY's proportion of the net pension liability | 0.15% | 0.16% | 0.16% |
| DASNY's proportionate share of the net pension liability | \$ 24,119 | 5,259 | 7,035 |
| Covered payroll | 45,656 | 44,162 | 45,270 |
| Net pension liability as a percentage of covered payroll | 52.80% | 11.91% | 15.54% |
| Plan fiduciary net position as a percentage of the total pension liability | 90.7% | 97.9% | 97.2% |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.

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

Required Supplementary Information

Schedule of Pension Contributions
New York State and Local Employees' Retirement System (Unaudited)

(Dollars in thousands)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|----------------|----------------|----------------|
| Contractually required contribution | \$ 6,875 | 7,716 | 7,980 |
| Contributions in relation to the contractually required contribution | <u>(6,875)</u> | <u>(7,716)</u> | <u>(7,980)</u> |
| Contribution deficiency (excess) | \$ <u>—</u> | <u>—</u> | <u>—</u> |
| Covered payroll | 46,666 | 45,656 | 44,162 |
| Contributions as a percentage of covered payroll | 14.73 % | 16.90 % | 18.07 % |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

See accompanying independent auditors' report.