

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY
(A New York Public Benefit Corporation)

FINANCIAL REPORT

December 31, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

Report on the Financial Statements

We have audited the accompanying statements of net position of the Schenectady Metroplex Development Authority (Authority) (a New York public benefit corporation), as of December 31, 2012 and 2011, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 auditor's 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 the Schenectady Metroplex Development Authority as of December 31, 2012 and 2011, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the financial statements, during 2012 the Authority adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The adoption of GASB Statement No. 63 affected the presentation of the statements of net position. The adoption of GASB Statement No. 65 affected the treatment of bond issuance costs and bond refundings.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 March 14, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Bollam Sheedy Torani & Co. LLP

Albany, New York
March 14, 2013

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012 and 2011

The Schenectady Metroplex Development Authority, hereafter referred to as the Authority, is pleased to present its Financial Report for the years ended December 31, 2012 and 2011, developed in compliance with Statement of Governmental Accounting Standard No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* (hereafter GASB 34), and related standards. We encourage readers to consider the information presented on pages 3 to 8 in conjunction with the Authority's financial statements (presented on pages 9 to 11) to enhance their understanding of the Authority's financial performance.

RESPONSIBILITY AND CONTROLS

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on the recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The Audit Committee of the Authority's Board of Directors is comprised of members of the Board who are not employees and who provide a broad overview of management's financial reporting and control functions. Periodically, this Committee meets with management and the independent external auditors to ensure these groups are fulfilling their obligations and to discuss auditing, controls, and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted according to management's intentions and to a high standard of business ethics. In management's opinion, the financial statements present fairly, in all material respects, the net position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP).

AUDIT ASSURANCE

The unqualified (i.e., clean) opinion of our independent external auditors, Bollam, Sheedy, Torani & Co. LLP, is included on pages 1 and 2 of this report.

This section presents management's discussion and analysis of the Authority's financial condition and activities for the year ended December 31, 2012. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The year 2012 marked another outstanding year for the Authority. The Authority continued the growth of its redevelopment investments and activities within its statutory service area, and management believes the Authority's financial position remains very strong. Following are some of the highlights of 2012 results:

- Total operating revenues increased by 2.4% over those of the prior fiscal period, reflecting the continuing recovery of the national and regional economies, and especially in the consumer sector that drives the sales tax revenue stream. The Authority's sales tax revenues passed \$8 million, which represented an all-time high, exceeding those of 2011 by 2.8%. Management expects 2013 levels to continue to improve as the local economy continues its growth during the period.
- Total operating expenses increased to \$958,160 in 2012, a 4.7% increase over those of 2011, and 10% over 2010, due to increased employee benefit costs, advertising expenses, and insurance costs.

SCENECTADY METROPLEX DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012 and 2011

FINANCIAL HIGHLIGHTS - Continued

- Nonoperating expenses, net for 2012 were 9.6% lower than those of 2011, as the Authority refunded higher cost debt at lower interest rates.
- Total assets at the end of 2012 declined by 4.5% from the prior year to \$21.6 million, with the completion of several major projects. Net operating revenues for the period improved for the second consecutive year, increasing 2.1% from those of 2011, and 11.6% over 2010 results. Given the significant increases in operating revenues and modest increases in operating expenses mentioned above, net position, prior to reduction for project activities, was increased by \$5 million in 2012, an 8.1% increase over 2011 performance, and 23% above that of 2010.
- Net project grants and expenditures increased by \$3.9 million to \$8.4 million, and were \$2.75 million greater than those of 2010. Undistributed project commitments, fell to \$3.1 million at the end of 2012, as compared to \$9.6 million at 2011.
- The Authority issued \$13,240,000 of General Resolution Refunding Bonds.
- The Authority adopted Government Accounting Standards Board Statement Nos. 62, 63, and 65. See Notes 1 and Note 12 for detailed information on the effects of implementation.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information about the Authority's use of accounting methods which are similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The statement of net position includes all of the Authority's assets, deferred outflows, and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations to Authority creditors (liabilities). It also provides the basis for assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the statement of revenues, expenses, and changes in net position. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered its operating costs through its sales tax revenues.

Net position represents the accumulated earnings of the Authority, since inception, less project grants and expenditures disbursed.

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and the overall change in cash during the reporting period.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority is a public benefit corporation created pursuant to Article 8, Title 28-B of the New York Public Authorities Law. The Authority was created to pursue a comprehensive, coordinated program of economic development activities in the Route 5 and Route 7 corridors of Schenectady County, New York, with special emphasis on the downtown region of the City of Schenectady, New York.

SCENECTADY METROPLEX DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012 and 2011

SUMMARY OF ORGANIZATION AND BUSINESS - Continued

In creating the Authority, the New York State Legislature determined that its establishment was necessary to provide, within the Authority's statutorily described service district, for the economic prosperity, health, safety, and general welfare of the people of the State of New York, through the construction, development, and operation of infrastructure improvements and new facilities to redevelop an area characterized by deteriorated industrial and commercial structures, uncoordinated and incompatible commercial uses, inadequate public facilities, and substandard economic conditions. The Legislature declared the Authority to be performing an essential governmental function. Accordingly, the property, income, and operations of the Authority are exempt from taxation, assessments, special assessments, fees, and special *ad valorem* levies or assessments of any kind, whether state or local, upon or with respect to any property owned by the Authority, or under its jurisdiction, control, or supervision, or upon the uses thereof. Any fares, tolls, rentals, rates, charges, fees revenues, or other income by the Authority are likewise exempt from taxation.

The Authority is governed by a board of eleven members (the Board), all of whom are residents of Schenectady County, each of whom is appointed by majority vote of the Schenectady County Legislature. Two of the Board members are nominated by the City of Schenectady - one each upon the recommendation of the Mayor and the City Council; one member is nominated by each of three different townships within Schenectady County; one member is nominated upon the joint recommendation of the supervisors of two townships in Schenectady County; one member is nominated by the minority leader of the Schenectady County Legislature; two are nominated by the chairman of the Schenectady County Legislature; and two are nominated by joint recommendation of the Schenectady County Legislature. The Board conducts regular monthly meetings that are open to the public pursuant to Article 7 of the New York Public Officers Law, which is New York's version of an "open meetings" law.

The Authority's general purposes are to design, develop, plan, finance, create, site, construct, renovate, administer, operate, manage, and/or maintain buildings, parks, structures, and other facilities within its service district including, without limitation, industrial, manufacturing, entertainment, and infrastructure facilities, and business, commercial, retail, and government office buildings or space. To carry out its corporate purposes, the Authority is vested with and has broad powers, including the authority to borrow money, issue bonds, and enter into contracts and leases.

The Authority is statutorily entitled to receive, for the period beginning September 1, 1998, and ending August 31, 2033, 70% of one half of one percent of all sales and compensating use tax revenue received by Schenectady County, which may be used to support all of its statutorily authorized purposes and powers. The Authority has a limited obligation to return a portion of its sales tax revenues in the event such revenues exceed statutorily prescribed limits, which are a function of the Authority's current liabilities, reserve fund requirements, and anticipated project funding requirements.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011**

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information provide key financial data and indicators for management, monitoring, and planning.

Condensed Statements of Net Position

	December 31,				
	<u>2012</u>	<u>2012 vs. 2011</u>	<u>2011</u>	<u>2011 vs. 2010</u>	<u>2010</u>
ASSETS					
Current assets	\$ 6,564,421	1.3%	\$ 6,483,051	-21.3%	\$ 8,239,033
Capital assets, net	56,455	-14.7%	66,169	0.7%	65,738
Other assets	<u>14,985,855</u>	-6.8%	<u>16,078,772</u>	-3.9%	<u>16,726,707</u>
Total assets	<u>21,606,731</u>	-4.5%	<u>22,627,992</u>	-9.6%	<u>25,031,478</u>
DEFERRED OUTFLOWS, net	<u>574,293</u>	100.0%	<u>-</u>	0.0%	<u>-</u>
LIABILITIES					
Current liabilities	9,410,202	115.5%	4,366,638	-10.2%	4,860,908
Long-term debt	<u>41,621,246</u>	-5.0%	<u>43,793,850</u>	-4.6%	<u>45,904,820</u>
Total liabilities	<u>51,031,448</u>	6.0%	<u>48,160,488</u>	-5.1%	<u>50,765,728</u>
NET POSITION					
Net investment in capital assets	56,455	-14.7%	66,169	0.7%	65,738
Restricted	2,986,409	-11.6%	3,377,748	-2.1%	3,449,888
Unrestricted	<u>(31,893,288)</u>	10.1%	<u>(28,976,413)</u>	-0.9%	<u>(29,249,876)</u>
Total net position	<u>\$ (28,850,424)</u>	13.0%	<u>\$ (25,532,496)</u>	-0.8%	<u>\$ (25,734,250)</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31,				
	<u>2012</u>	<u>2012 vs. 2011</u>	<u>2011</u>	<u>2011 vs. 2010</u>	<u>2010</u>
Sales tax revenue	\$ 8,013,075	2.8%	\$ 7,798,305	7.9%	\$ 7,226,736
Other operating revenues	133,000	-15.0%	156,467	83.8%	85,118
Total operating revenues	<u>8,146,075</u>	2.4%	<u>7,954,772</u>	8.8%	<u>7,311,854</u>
Depreciation and amortization	19,264	2.0%	18,887	30.0%	14,530
Other operating expenses	<u>938,896</u>	4.7%	<u>896,547</u>	4.8%	<u>855,690</u>
Total operating expenses	<u>958,160</u>	4.7%	<u>915,434</u>	5.2%	<u>870,220</u>
Net operating revenues	7,187,915	2.1%	7,039,338	9.3%	6,441,634
Non operating expenses, net	<u>(2,154,054)</u>	-9.1%	<u>(2,369,504)</u>	0.9%	<u>(2,347,958)</u>
Increase in net position	5,033,861	7.8%	4,669,834	14.1%	4,093,676
NET POSITION, beginning of year	(25,532,496)	-0.8%	(25,734,251)	6.2%	(24,227,546)
Project grants, net of project grant revenues	<u>(8,351,789)</u>	86.9%	<u>(4,468,079)</u>	-20.2%	<u>(5,600,380)</u>
NET POSITION, end of year	<u>\$ (28,850,424)</u>	13.0%	<u>\$ (25,532,496)</u>	-0.8%	<u>\$ (25,734,250)</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS December 31, 2012 and 2011

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2012, the pace of the Authority's redevelopment efforts throughout its statutorily-defined territory service district continued with many of its prior commitments expected to begin in 2013, and those more recent being well underway. Management anticipates that the continuing recovery in the revitalized local economy will create new opportunities in the years ahead.

FINANCIAL CONDITION

The overall financial position of the Authority remained strong at year-end. Current assets at year-end 2012 were virtually unchanged from those of 2011 and represented 30% of total assets as compared to 29% in 2011 and 33% in 2010. Although total operating expenses in 2012 increased by \$43,000 from the prior year, they represented under 12% of total revenues, comparable to 2011 and 2010 levels. Total revenues of \$8.1 million have increased \$191,000 from 2011, and \$834,000 from 2010.

Despite the recent fluctuations in its sales tax revenue stream, taxable sales have grown at an average annual rate of almost 3% for several decades, and are expected to continue to do so in the years ahead. The Authority performs periodic internal cash flow projections to evaluate cash adequacy (particularly during the annual budget process) and to control operational expenses to meet the debt ratio coverage covenant in the Trust Indenture that governs operations and financial requirements.

RESULTS OF OPERATIONS

Revenue

Total revenue for 2012, exclusive of unrealized gain/loss on investments, was \$8,146,075 compared to \$7,954,772 in 2011 and \$7,311,854 in 2010.

Expense

Total operating expenses for the year 2012 were \$958,160 compared to \$915,434 in 2011 and \$870,220 in 2010. Cash and cash equivalents on hand for debt service payments were in excess of \$4 million.

LONG-TERM OBLIGATIONS

During August 2012, the Authority issued \$13,240,000 of General Resolution Refunding Bonds to provide resources to be placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$13,610,000 of the 2001A and 2004A General Resolution Bonds.

As of December 31, 2012, the Authority had \$46,745,000 in bonds outstanding related to five separate general resolution bond issues in 2004, 2005, 2006, 2010, and 2012. The bonds mature in 2013, 2013, 2028, 2028, 2033, and 2027, respectively. Principal payments related to these bonds will total \$2,150,000 during 2013.

More detailed information about the Authority's long-term obligations is presented in the notes to the financial statements on pages 17-19.

FINAL COMMENTS

The Authority periodically is requested by institutional or commercial interests to review options for various types of interest rate related derivative products. The Trust Indenture requires such to be financially feasible and to have no material effect on the Authority's ability to make current debt payments. To date, the Authority has chosen not to make use of such products. The Authority closely monitors asset liquidity and project demand, among other factors, in determining feasibility of additional facilities.

Under terms of the Trust Indenture, the Authority has agreed to maintain operating levels which shall be sufficient to produce net revenue for each fiscal year: (i) to pay Authority expenses; (ii) to pay debt service on outstanding bond obligations (or other parity debt), and (iii) to produce a debt service coverage ratio greater than or equal to 1.25 in each fiscal year.

Jayme Lahut, Executive Director since 1999, continues to serve in that capacity.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2012 and 2011**

CONTACTING THE AUTHORITY'S DIRECTOR OF FINANCE

This financial report is intended to provide a general overview of the Authority's net position and to illustrate the Authority's accountability for the revenue it receives. If you have any questions about this report or need additional financial information, contact the Schenectady Metroplex Development Authority's Director of Finance, 433 State Street, Schenectady, New York 12305, or on the internet at www.schenectadymetroplex.org.

PRINCIPAL OFFICIALS

The members of the Authority's Board of Directors, confirmed by the Schenectady County Legislature, are as follows:

<u>Name</u>	<u>Board Office</u>	<u>Term Expiration</u>
Ray Gillen	Chair	December 31, 2013
Bradley G. Lewis	Vice Chair	December 31, 2013
Robert L. Wall	Secretary	December 31, 2014
Sharon A. Jordon	Treasurer	December 31, 2014
Edward L. Capovani		December 31, 2014
William R. Chapman		December 31, 2014
Neil M. Golub		December 31, 2013
Janet Hutchison		December 31, 2013
John Mallozzi		December 31, 2013
Robert J. Mantello		December 31, 2014
Karen Zalewski-Wildzunas		December 31, 2014

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

STATEMENTS OF NET POSITION

	December 31,	
	2012	2011
		(Restated)
ASSETS		
CURRENT ASSETS		
Cash, unrestricted	\$ 1,420,366	\$ 1,396,683
Cash, restricted	841,682	853,670
Accounts receivable, net	3,605,974	3,580,465
Current installments of loans receivable, net	557,454	529,309
Current installments of notes receivable, net	60,097	58,213
Interest receivable	8,451	2,204
Prepaid expenses	70,397	62,507
Total current assets	6,564,421	6,483,051
CAPITAL ASSETS, net	56,455	66,169
OTHER ASSETS		
Loans receivable, less current installments, net	11,623,950	12,270,343
Note receivable, less current installments, net	375,496	430,681
Investment reserves, restricted	2,986,409	3,377,748
	14,985,855	16,078,772
Total assets	21,606,731	22,627,992
DEFERRED OUTFLOWS, NET		
Deferred outflow resulting from refunding of debt, net	574,293	-
LIABILITIES		
CURRENT LIABILITIES		
Current installments of bonds payable	2,270,000	2,060,000
Accounts payable, project expenses, and accrued expenses	210,915	265,090
Accrued interest	827,110	826,974
Due to the County of Schenectady, current portion	46,015	44,038
Grants payable	5,150,000	99,934
Premium on bonds, net of amortization, current portion	64,480	6,932
Escrow payable	841,682	1,063,670
Total current liabilities	9,410,202	4,366,638
LONG-TERM DEBT		
Bonds payable, less current installments	39,825,000	42,755,000
Due to the County of Schenectady, less current portion	909,646	955,661
Premium on bonds, net of amortization, less current portion	886,600	83,189
	41,621,246	43,793,850
Total liabilities	51,031,448	48,160,488
NET POSITION		
Net investment in capital assets	56,455	66,169
Restricted	2,986,409	3,377,748
Unrestricted	(31,893,288)	(28,976,413)
Total net position	\$ (28,850,424)	\$ (25,532,496)

The accompanying Notes to Financial Statements are an integral part of these statements.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2012	2011
		(Restated)
OPERATING REVENUES		
Sales tax revenues	\$ 8,013,075	\$ 7,798,305
Other income	133,000	156,467
	8,146,075	7,954,772
OPERATING EXPENSES		
Payroll	432,589	425,224
Payroll taxes	35,864	35,003
Pension plan	61,326	58,381
Health insurance	44,842	38,650
Other employee benefits	5,097	5,594
Accounting	65,374	63,450
Advertising	19,245	99
Automobile	7,261	8,714
Consulting	4,375	16,267
Depreciation	19,264	18,887
Dues and subscriptions	4,640	3,374
Hosting and travel	5,264	3,514
Insurance	26,393	17,330
Legal	80,905	73,746
Office supplies	10,261	14,950
Postage	2,669	3,002
Rent	52,091	54,655
Repairs and maintenance	21,953	18,934
Resource data	32,749	33,003
Utilities	25,998	22,657
	958,160	915,434
Net operating revenues	7,187,915	7,039,338
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	64,781	49,615
Interest expense	(2,052,615)	(2,404,119)
Bond issuance costs	(149,420)	-
Debt service fees	(16,800)	(15,000)
	(2,154,054)	(2,369,504)
Increase in net position	5,033,861	4,669,834
NET POSITION, <i>beginning of year</i>	(25,532,496)	(25,734,251)
Project grants and expenditures, net of project grant revenues	(8,351,789)	(4,468,079)
NET POSITION, <i>end of year</i>	\$ (28,850,424)	\$ (25,532,496)

The accompanying Notes to Financial Statements are an integral part of these statements.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2012	2011
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from sales tax revenues	\$ 7,794,837	\$ 8,115,288
Cash received from other sources	115,729	156,467
Cash paid to suppliers and other vendors	(372,165)	(361,256)
Cash paid for salaries and employee benefits	(574,621)	(557,258)
	6,963,780	7,353,241
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Debt service fees	(16,800)	(15,000)
Proceeds from bond issuance	6,109	-
Repayments of bond principal	(2,350,000)	(1,930,000)
Repayment of amounts due to the County of Schenectady	(44,038)	(42,145)
Interest paid	(2,055,945)	(2,479,519)
	(4,460,674)	(4,466,664)
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of office furniture and equipment	(9,550)	(19,318)
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Change in cash, restricted	-	210,000
Proceeds (purchase) of investment reserves, restricted, net	155,942	72,140
Issuance of loans receivable	-	(255,494)
Repayment of loans receivable	541,304	940,113
Repayment of notes receivable	53,301	61,106
Investment earnings received	58,534	49,749
Project grants and expenditures paid, net of project grant revenues received	(3,278,954)	(4,706,790)
	(2,469,873)	(3,629,176)
Net increase (decrease) in cash	23,683	(761,917)
CASH, beginning of year	1,396,683	2,158,600
CASH, end of year	\$ 1,420,366	\$ 1,396,683
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating revenues	\$ 7,187,915	\$ 7,039,338
Adjustments to reconcile net operating revenues to net cash provided (used) by operating activities		
Depreciation and amortization	19,264	18,887
Change in accounts receivable	(235,509)	316,983
Change in prepaid expenses	(7,890)	(21,967)
	\$ 6,963,780	\$ 7,353,241
SUPPLEMENTARY CASH FLOW INFORMATION		
Noncash project expenditures	\$ 98,992	\$ 259,829
2012 Bond refunding proceeds placed in escrow	14,051,673	-
2012 Bond refunding proceeds used to pay bond issuance costs	149,420	-
Redeemed/defeased bonds	13,610,000	-

The accompanying Notes to Financial Statements are an integral part of these statements.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

On June 30, 1998, the Public Authorities Law and the Executive Law of the State of New York were amended to allow for the establishment of the Schenectady Metroplex Development Authority (Authority) as a public benefit corporation, and to amend the tax law in relation to authorizing additional sales and compensating use taxes in Schenectady County (County). The amended laws (Laws of New York, 1998; Chapter 124, Article 8, Title 28-B) allowed for collection of additional sales and compensating use taxes to begin on September 1, 1998, and to end on August 31, 2033. The Schenectady Metroplex Development Authority Act (Act) was created by the New York State Legislature with powers to provide the State of New York and the County with the capability to effectively and efficiently develop, renovate, and optimize the economic and social activities of the Route 5 and Route 7 corridors of the County. The Authority began operations on January 1, 1999.

The Authority is governed by a Board of eleven members who are residents of the County and are appointed by a majority vote of the County Legislature.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

b. Basis of Accounting

The Authority's financial statements are prepared using accounting principles generally accepted in the United States of America (U.S. GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations are included on the statements of net position. Net position is segregated into restricted and unrestricted components, as follows:

- *Net investment in capital assets* consists of capital assets, net of accumulated depreciation.
- *Restricted net position* have external constraints placed on use.
- *Unrestricted net position* consists of assets, liabilities, and deferred outflows that do not meet the definition of net investment in capital assets or restricted.

Revenues are recognized when earned, and expenses are recognized when incurred. The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues include sales tax revenue and other revenues collected based on the services provided by the Authority. Operating expenses include the costs associated with providing those services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Project grants and expenditures, net of project revenues, are reported as a direct adjustment to net position.

c. Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Fair Value Measurement

The Authority reports certain assets and liabilities at fair value. Fair value is defined as an exchange price that would be received for an asset or paid to transfer a liability (an "exit" price) in the principal or most advantageous market for the asset or liability between market participants on the measurement date.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

e. Sales Tax Revenues

Pursuant to Subdivision (C) of Section 1210 (C) of the tax law, the County shall dedicate one-half of one percent of County sales and compensating use tax on all sales and compensating uses taxable pursuant to Article 29 of the tax law, beginning on September 1, 1998, and ending on August 31, 2033, and shall annually deposit such net collections received there from in the Schenectady Metroplex Development Authority Support Fund, held by the County. Beginning January 1, 1999, and then quarterly thereafter, the County shall transfer 70% of net collections received from the one-half of one percent to the Authority. The remaining 30% is transferred by the County to the Schenectady County real property tax abatement and economic development fund.

f. Cash

Statutes authorize the Authority to maintain deposits with financial institutions and to invest in certificates of deposit, obligations of New York State, the United States Government and its agencies, and repurchase agreements collateralized by U.S. obligations.

Unrestricted and restricted cash are either adequately covered by federal depository insurance or collateralized by securities held by the pledging bank's trust department in the Authority's name or U.S. Government and/or federal agency securities held by the Trustee.

g. Cash, Restricted

At December 31, 2012 and 2011, restricted cash consisted of escrow deposits held for the Downtown Schenectady Façade Program, the Upper Union Street Façade Program, the Countywide Façade Program (Note 8), and deposits held as a payment in lieu of taxes.

h. Receivables

Accounts receivable consists of amounts due from the County from the sales and compensating use tax collections plus interest thereon and amounts due from other entities. Receivables of \$3,538,286 and \$3,320,048, based in part on estimates by management, are being held by the County in the Schenectady Metroplex Development Authority Support Fund but have not yet been transferred to the Authority as of December 31, 2012 and 2011, respectively.

Loans and notes receivable are carried at the original loan amount less payments of principal received and an allowance. Accrued interest income is reported for loan interest earned but not received at year-end. As of December 31, 2012 and 2011, the Authority has an allowance of \$1,349,860 and \$1,321,909, respectively, for loans and notes receivable.

Other than the allowance described above, management considers all other accounts and loans receivable to be fully collectible. If, in the future, management determines that amounts may be uncollectible, the account or loan will be written off or an allowance will be established, and operations will be charged when that determination is made.

i. Capital Assets

Capital assets are reported at cost, net of accumulated depreciation. Expenditures for acquisitions, renewals, and betterments are capitalized, whereas maintenance and repairs costs are expensed as incurred. The Authority uses a capitalization threshold of \$1,000 to analyze expenditures for capitalization. When capital assets are retired or disposed of, the appropriate accounts are relieved of costs and accumulated depreciation, and any resultant gain or loss is credited to operations.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

i. Capital Assets - Continued

Depreciation is provided for in amounts to relate the cost of depreciable assets to operations over their estimated useful lives on a straight-line basis. The estimated useful life for office machinery and equipment is five years. The estimated useful life for furniture and fixtures is seven years, and the estimated useful life for leasehold improvements is nine years.

The Authority evaluated prominent events or changes in circumstances affecting capital assets to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2012 and 2011.

j. Tax Status

The Authority is exempt from federal income taxes under Section 115 of the Internal Revenue Code and is also exempt from New York State income taxes.

k. Advertising Costs

Marketing and advertising costs are expensed as they are incurred.

l. New Accounting Pronouncements

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into the GASB's authoritative literature certain accounting and financial reporting pronouncements issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

The Authority fully adopted GASB Statements No. 62 and No. 63 as of January 1, 2012, and there was no significant impact to the financial statements.

m. Early Application of Accounting Pronouncements

Management has elected to early implement the following as of January 1, 2012:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides financial reporting guidance related to the impact of the financial statements elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of major fund calculations and limiting the use of the term deferred in the financial statements. The statement establishes standards of accounting and financial reporting for debt issuance costs, stating that debt issuance costs, except any portion related to prepaid insurance costs, should be recognized as an expense in the period incurred.

See Note 12 for the impact of GASB Statement 65 on the financial statements

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

n. Subsequent Events

The Authority has evaluated subsequent events that provide additional evidence about conditions that existed at the financial statement date through March 14, 2013, the date the financial statements were available to be issued.

o. Reclassification

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

NOTE 2 - LOANS RECEIVABLE

A summary of the Authority's loans receivable is as follows:

	December 31,	
	2012	2011
Loans receivable (a) (b)	\$ 13,331,264	\$ 13,921,561
Less allowance	1,149,860	1,121,909
Current installments	<u>557,454</u>	<u>529,309</u>
Loans receivable, less current installments, net	<u>\$ 11,623,950</u>	<u>\$ 12,270,343</u>

(a) All of the loans receivable include collateral which is specific to each loan. The collateral may include mortgages on real property, liens on furniture and fixtures and equipment, assignments of rents, and personal guarantees of the project owners.

(b) The loans receivable include terms which vary with each loan. Maturity periods vary up to a maximum of 20 years. The latest maturity date is December 2029. Interest rates vary from 0% to 6%. Required monthly payments range from \$383 to \$9,535.

Interest earnings on loans receivable were \$61,100 and \$45,574 for the years ended December 31, 2012 and 2011, respectively.

NOTE 3 - NOTES RECEIVABLE

a. L&S Realty, Inc.

During 2000, the Authority sold redeveloped land to L&S Realty, Inc. for \$300,000. As consideration, the Authority received a 15-year note receivable. No payments were due, and the note was noninterest bearing for ten years. Monthly payments commenced in 2011 in the amount of \$5,390, including interest at 3%. The note receivable matures December 2015. The note is secured by various connected parcels of land located in Schenectady, New York.

b. 426 State Street Associates, LLC

During July 2006, the Authority sold real property to 426 State Street Associates, LLC for \$200,000. As consideration, the Authority received a 10-year note receivable with no interest. The operator must operate the restaurant on the premise for the borrower, or an affiliate of the borrower, for a period of five years from the initial opening of the restaurant, and if the borrower continues to own the property on a date which is ten years from the date of the note, the loan will be forgiven. In the event these terms are violated, the note will begin accruing interest at 12% until repaid in full. An allowance has been established for the entire note receivable in anticipation of the note being forgiven.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 3 - NOTES RECEIVABLE - Continued

c. 447 State Street

During December 2008, the Authority transferred real property and a note receivable for \$250,000 from Grupo Lucano, LLC to Bombers Burito, Inc. As consideration, the Authority received a 20-year note receivable with no interest. The entire principal balance of the note is due December 2028, upon sale of the property, or due to non-performance.

A summary of the Authority's notes receivable is as follows:

	December 31,	
	2012	2011
L&S Realty, Inc.	\$ 185,593	\$ 238,894
426 State Street Associates, LLC	200,000	200,000
447 State Street	<u>250,000</u>	<u>250,000</u>
	635,593	688,894
Less allowance	200,000	200,000
Current installments	<u>60,097</u>	<u>58,213</u>
Notes receivable, less current installments, net	<u>\$ 375,496</u>	<u>\$ 430,681</u>

NOTE 4 - CAPITAL ASSETS

Capital assets are summarized as follows:

	January 1, 2012	Additions	December 31, 2012
Office furniture and equipment	\$ 235,922	\$ 9,550	\$ 245,472
Leasehold improvements	26,874	-	26,874
	<u>262,796</u>	<u>9,550</u>	<u>272,346</u>
Accumulated depreciation	<u>(196,627)</u>	<u>(19,264)</u>	<u>(215,891)</u>
	<u>\$ 66,169</u>	<u>\$ (9,714)</u>	<u>\$ 56,455</u>
	January 1, 2011	Additions	December 31, 2011
Office furniture and equipment	\$ 218,103	\$ 17,819	\$ 235,922
Leasehold improvements	25,375	1,499	26,874
	<u>243,478</u>	<u>19,318</u>	<u>262,796</u>
Accumulated depreciation	<u>(177,740)</u>	<u>(18,887)</u>	<u>(196,627)</u>
	<u>\$ 65,738</u>	<u>\$ 431</u>	<u>\$ 66,169</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 5 - DEFERRED OUTFLOWS, NET

During 2012, the Authority issued \$13,240,000 of General Resolution Refunding Bonds, Series 2012, to defease the General Resolution Bonds 2001A and the General Resolution Bonds, 2004A. As summarized below, the Authority's deposit into the Refunding Escrow account exceeded the net carrying value of the refunded bonds. This excess results in deferred outflows. The deferred outflows will be amortized over the remaining life of the defeased bonds. The amortization will be reported as interest expense over the next twelve years.

	December 31, 2012
	<u> </u>
Bond proceeds	
Par amount	\$ 13,240,000
Premium	967,200
Other sources	
Debt service funds	235,395
	<u>14,442,595</u>
Less	
Proceeds deposited into restricted fund	6,109
Debt issuance costs	149,420
Par amount of defeased debt	13,610,000
Unamortized premium on defeased debt	86,364
	<u>13,851,903</u>
Deferred outflows	590,702
Accumulated amortization	<u>(16,409)</u>
	<u>574,293</u>
Deferred outflows, net	<u>\$ 574,293</u>

NOTE 6 - BONDS PAYABLE, NET

During January 2002, the Authority issued \$8,080,000 of General Resolution Bonds, 2001A, to fund certain public transportation, parking, and infrastructure projects within the Authority's service district approved by the Authority's Board of Directors. The approved projects include the Broadway Parking Garage, Little Italy, State Streetscape, Upper Union Street Revitalization, and the Vale Village Revitalization. The terms of the bonds include annual payments of principal ranging from \$260,000 to \$625,000 plus interest at rates ranging from 3.00% to 5.50% during the life of the bond, payable on June 15 and December 15 of each year. Bonds maturing on or before December 15, 2012, are not subject to redemption prior to maturity. Bond maturing on or after December 15, 2012, are subject to redemption prior to maturity on or after December 15, 2012, at the option of the Authority, at the redemption price of 100% plus accrued interest thereon. These General Resolution Bonds, 2001A were fully redeemed in 2012 with the General Resolution Refunding Serial Bonds issued in August 2012.

During September 2004, the Authority issued \$14,000,000 of General Resolution Bonds, 2004A, to fund certain public transportation, parking, and infrastructure projects within the Authority's service district approved by the Authority's Board of Directors. The 2004 bonds were issued at a premium of \$138,647, which is amortized over the life of the bonds on a straight-line basis. Amortization of the premium began in 2005. Accumulated amortization expense at December 31, 2012, is \$41,594. The approved projects include the Proctor's Theatre Expansion and the Broadway Garage acquisition. Terms of the bonds include annual payments of principal ranging from \$480,000 to \$1,005,000 plus interest at rates ranging from 3.00% to 4.50% during the life of the bonds, payable on March 15 and September 15 of each year. Bonds maturing through September 15, 2013, are not subject to redemption prior to maturity. Bonds maturing on or after September 15, 2014, are subject to redemption prior to maturity on or after September 15, 2014, at the option of the Authority, at the redemption price of 100% plus accrued interest thereon. All but \$640,000 of these General Resolution Bonds, 2004A were defeased in 2012 with the General Resolution Refunding Serial Bonds issued in August 2012. The remaining bond payable at December 31, 2012, of \$640,000 is payable in September 2013 at 4.75%.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 6 - BONDS PAYABLE, NET - Continued

During September 2005, the Authority issued \$11,405,000 of General Resolution Bonds, Series 2005A and \$5,000,000 of General Resolution Bonds, Series 2005B, to fund certain infrastructure projects within the Authority's service district approved by the Authority's Board of Directors. The approved projects include the Hampton Inn, Broadway Commerce Park, the acquisition of certain State Street properties, and the payment of the lease obligations related to the MVP Parking Garage. The terms of the 2005A bonds include interest at rates ranging from 4.144% to 4.949% during the life of the bonds, payable on February 1 and August 1 of each year. The 2005B bonds bear interest at fixed rates ranging from 5.15% to 6.62%. The bonds include annual principal payments ranging from \$125,000 to \$360,000 and mature August 1, 2028.

During November 2006, the Authority issued \$11,440,000 of General Resolution Bonds, Series 2006A, to fund certain urban commercial real estate development projects within the Authority's service district approved by the Authority's Board of Directors. The approved projects include the 400 State Street Cinema construction, additional funding for the Hampton Inn, improvements, replacements, and reconstruction of infrastructure, as well as ancillary construction activities within the Proctor's Block of the City of Schenectady, a façade program within the central business district of the City, and the Dorp Salvage project. The terms of the 2006A bonds include interest at rates ranging from 5.13% to 5.62% during the life of the bonds, payable February 1 and August 1 of each year. The bonds include annual principal payments ranging from \$295,000 to \$850,000 and mature August 1, 2028.

During June 2010, the Authority issued \$1,050,000 of General Resolution Bonds, Series 2010A, and \$5,360,000 of General Resolution Bonds, Series 2010B, to fund certain infrastructure projects within the Authority's service district approved by the Authority's Board of Directors. The terms of the 2010A bonds include interest at rates ranging from 2.00% to 3.50% during the life of the bonds, payable on February 1 and August 1 of each year. The terms of the 2010B bonds include interest at rates ranging from 1.715% to 5.304% during the life of the bonds, payable on February 1 and August 1 of each year. The bonds include annual principal payments ranging from \$120,000 to \$500,000 and mature August 1, 2033.

During August 2012, the Authority issued \$13,240,000 of General Resolution Refunding Bonds to provide resources to purchase U.S. Government, state, and local government series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of \$13,610,000 of the 2001A and 2004A General Resolution Bonds. The General Resolution Bonds, 2001A were fully redeemed in 2012 and all but \$640,000 of the General Resolution Bonds, 2004A were defeased in 2012. This advance refunding was undertaken to reduce total debt service payments by \$491,973 with an estimated present value savings of \$844,244. The 2012 bonds were issued at a premium of \$967,200, which is amortized over the life of the bonds on a straight-line basis. Amortization of the premium began in 2012. Accumulated amortization expense at December 31, 2012, totaled \$16,120. The terms of the 2012 bonds include interest at rates ranging from 3.00% to 5.00% during the life of the bonds, payable March 15 and September 15 of each year. The bonds include annual principal payments ranging from \$290,000 to \$1,125,000 and mature September 15, 2027.

All current holders of the Authority's bonds have been provided with a direct pledge of future sales tax revenues to ensure full repayment of outstanding bond balances.

A summary of the Authority's bonds payable is as follows:

	December 31,	
	2012	2011
General Resolution Bonds, Series 2001A	\$ -	\$ 4,975,000
General Resolution Bonds, Series 2004A	640,000	10,280,000
General Resolution Bonds, Series 2005A	9,080,000	9,445,000
General Resolution Bonds, Series 2005B	3,965,000	4,120,000
General Resolution Bonds, Series 2006A	9,340,000	9,705,000
General Resolution Bonds, Series 2010A	990,000	1,025,000
General Resolution Bonds, Series 2010B	5,130,000	5,265,000
General Resolution Refunding Bonds, Series 2012	12,950,000	-
Bonds payable, end of year	\$ 42,095,000	\$ 44,815,000

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 6 - BONDS PAYABLE, NET - Continued

A summary of bond transactions is as follows:

	December 31,	
	2012	2011
Bonds payable, beginning of year	\$ 44,815,000	\$ 46,745,000
Bonds issued	13,240,000	-
Principal payments	(2,350,000)	(1,930,000)
Bonds defeased	(13,610,000)	-
	\$ 42,095,000	\$ 44,815,000

A summary of future principal payments and estimated interest payments on the bonds is as follows:

	Principal	Interest
For the year ending December 31, 2013	\$ 2,270,000	\$ 2,092,611
2014	1,825,000	1,994,892
2015	1,910,000	1,912,446
2016	1,995,000	1,825,006
2017	2,095,000	1,731,960
For the years ending December 31, 2018 through 2022	12,045,000	7,059,574
2023 through 2027	15,395,000	3,682,726
2028 through 2032	4,060,000	689,523
For the year ending December 31, 2033	500,000	32,612
	\$ 42,095,000	\$ 21,021,350

Interest expense for the years ended December 31, 2012 and 2011, was \$2,011,938 and \$2,364,982, respectively. Interest paid during the years ended December 31, 2012 and 2011, totaled \$2,011,059 and \$2,432,741, respectively.

As required by the bond documents, the Authority is required to establish and maintain certain reserves for the benefit of the bondholders. These reserves, which are made up of U.S. Treasury money markets and cash, are held in trust by M&T Investment Group and are reported at fair value as follows:

	December 31,	
	2012	2011
<i>Investment reserves, restricted</i>		
Bond Proceeds Fund	\$ 6,109	\$ -
Debt Service Reserve Fund (a)	1,851,278	2,416,500
Debt Service Fund	1,129,022	961,248
	\$ 2,986,409	\$ 3,377,748

(a) The debt service reserve fund requirement at December 31, 2012, was \$2,253,624.

NOTE 7 - DUE TO SCHENECTADY COUNTY

During October 2006, the Authority was informed by Schenectady County that excessive sales and use tax collections were erroneously remitted to the Authority for periods prior to December 31, 2005. The Authority has agreed with the County's findings and has entered into a repayment agreement with the County to repay \$1,193,076 of excess sales tax revenues over a twenty-one year period with interest at 4.49%.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2012 and 2011

NOTE 7 - DUE TO SCHENECTADY COUNTY - Continued

A summary of future principal payments and estimated interest payments on the amounts due to the County is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending December 31, 2013	\$ 46,015	\$ 42,909	\$ 88,924
2014	48,081	40,843	88,924
2015	50,240	38,684	88,924
2016	52,495	36,429	88,924
2017	54,853	34,071	88,924
For the years ending December 31, 2018 through 2022	313,493	110,526	424,019
2023 through 2027	390,484	54,136	444,620
	<u>\$ 955,661</u>	<u>\$ 357,598</u>	<u>\$ 1,313,259</u>

Interest expense for the years ended December 31, 2012 and 2011, was \$44,145 and \$46,069, respectively. Interest paid during the years ended December 31, 2012 and 2011, totaled \$44,886 and \$46,779, respectively.

NOTE 8 - PROJECT GRANTS AND COMMITMENTS

A summary of the Authority's project grants and commitments, with activity, as of and for the years ended December 31, 2012 and 2011, is as follows:

3N2, LLC

The Authority has approved expenditures of \$85,777 for this project. The expenditures were approved to create an allowance against the loan receivable balance (Note 2).

AAA Northway Relocation Project

The Authority has approved grants of \$84,000 and related expenses of \$173,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$84,000 and had incurred expenses of \$167,293 in connection with this project.

Adirondack Trailways Façade

The Authority has approved grants of \$85,000 and related expenses of \$5,000 for this project. As of December 31, 2012, the Authority had not distributed any grants and had incurred expenses of \$1,289 in connection with this project.

Alco Redevelopment

The Authority has approved expenditures of \$496,126 for this project. As of December 31, 2012, the Authority had incurred expenses of \$496,126 in connection with this project.

Airport Technology Park Infrastructure

The Authority has approved grants of \$31,565 and related expenditures of \$2,000 for this project. As of December 31, 2012, the Authority had not distributed any grants and had not incurred any expenses in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

Bel Cibo Gourmet Food and Spices

The Authority has approved grants of \$15,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$15,000 in connection with this project.

Benchmark Printing Expansion

The Authority has approved grants of \$150,000 and related expenses of \$1,590 for this project. As of December 31, 2012, the Authority had distributed grants of \$150,000 and had incurred expenses of \$1,590 in connection with this project.

Capitol Plaza (Rotterdam) Renovation

The Authority has approved grants of \$85,000 and related expenses of \$12,907 for this project. As of December 31, 2012, the Authority had distributed grants of \$85,000 and had incurred expenses of \$12,907 in connection with this project.

Clinton's Ditch Phase 1 & 2

The Authority has approved grants of \$30,000 and related expenses of \$37,501 for this project. As of December 31, 2012, the Authority had distributed grants of \$30,000 and had incurred expenses of \$37,501 in connection with this project.

Clinton Square

The Authority has approved grants of \$2,181,468 and related expenses of \$16,800 for this project. As of December 31, 2012, the Authority had distributed grants of \$2,181,468 and had incurred expenses of \$16,800 in connection with this project. The Authority also received a \$1,431,468 grant from Empire State Development Corporation, RESTORE NY related to this project.

Countywide Façade Program

The Authority has approved grants of \$483,551 and related expenses of \$1,465 for this project. As of December 31, 2012, the Authority has distributed grants of \$483,551 and incurred expenses of \$1,465 in connection with this project.

Detmas Retention

The Authority has approved a grant of \$6,000 for this project. As of December 31, 2012, the Authority had distributed the grant of \$6,000 in connection with this project.

Downtown Ambassador Program

The Authority has approved grants of \$35,760 for this project. As of December 31, 2012, the Authority had distributed grants of \$35,760 in connection with this project.

DHA Holdings, Inc.

The Authority has approved grants of \$100,000 and related expenses of \$3,402 for this project. As of December 31, 2012, the Authority has distributed grants of \$100,000 and incurred expenses of \$3,402 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

Downtown Denny's Façade

The Authority has approved a grant of \$25,000 and \$865 for related expenses in connection with this project. As of December 31, 2012, the Authority had distributed \$25,000 of the grant and had incurred \$865 in expenditures in connection with this project.

Downtown Façade Program V

The Authority has approved grants of \$785,126 and \$14,307 for related expenses in connection with this project. As of December 31, 2012, the Authority had distributed \$785,126 of grants and had incurred \$14,307 in expenditures in connection with this project.

Downtown Fix-up Program

The Authority has approved \$295,200 for expenses in connection with this project. As of December 31, 2012, the Authority had incurred \$267,172 in expenditures in connection with these projects.

Downtown Special Assessment Districts

The Authority has approved grants of \$983,375 and \$16,000 for related expenses in connection with these projects. As of December 31, 2012, the Authority had distributed \$934,693 of grants and had incurred \$10,440 in expenditures in connection with these projects.

Draper School Redevelopment Project

The Authority has approved a grant of \$50,000 and related expenses of \$5,000 for this project. As of December 31, 2012, the Authority had incurred \$4,262 in expenses in connection with this project.

Duanesburg Waste Water Study

The Authority has approved a grant of \$17,930 for this project. As of December 31, 2012, the Authority had distributed \$17,930 of grants in connection with this project.

Electro Fiber Technologies LLC

The Authority has approved grants of \$100,000 and related expenses of \$2,704 in connection with this project. As of December 31, 2012, the Authority had distributed \$100,000 of the grants and had incurred \$2,704 in expenditures in connection with this project.

Foster Building Project

The Authority has approved expenditures of \$1,860,000 for this project. As of December 31, 2012, the Authority has incurred expenses of \$1,841,393 in connection with this project.

Gateway Plaze Redesign Study

The Authority has approved grants of \$20,000 for this project. As of December 31, 2012, the Authority had distributed \$20,000 of the grants in connection with this project.

Gather's Granola/Sanz Branz

The Authority has approved expenditures of \$7,500 for this project. As of December 31, 2012, the Authority has incurred expenses of \$7,500 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

GEMx Advanced Battery

The Authority has approved grants of \$5,000,000 and related expenses of \$50,000 for this project. As of December 31, 2012, the Authority had received a grant requisition for payment of \$5,000,000 of the grants and incurred expenses of \$8,871 in connection with this project. The Authority paid the grant requisition of \$5,000,000 in January 2013.

Jay Street Lighting Project - Phase 2

The Authority has approved expenses of \$90,000 for this project. As of December 31, 2012, the Authority had incurred expenses of \$72,658 in connection with this project.

162-166 Jay Street Renovation

The Authority has approved grants of \$20,000 and \$1,285 for related expenses for this project. As of December 31, 2012, the Authority had distributed grants of \$20,000 and had incurred expenses of \$1,285 in connection with this project.

JTT Empire

The Authority has approved expenditures of \$7,988 for this project. As of December 31, 2012, the Authority has incurred expenses of \$7,988 in connection with this project.

K-Mart Plaza Redevelopment

The Authority has approved grants of \$180,000 and \$52,863 for related expenses for this project. As of December 31, 2012, the Authority had distributed grants of \$180,000 and had incurred expenses of \$52,863 in connection with this project.

LaSartoria Clothing Store

The Authority has approved a grant of \$15,000, a loan of \$50,000, and related expenses of \$5,000 for this project. As of December 31, 2012, the Authority had distributed a grant of \$15,000, made loans of \$50,000, and had incurred expenses of \$4,519 in connection with this project. In 2012, an additional \$50,000 of expenditures were approved to create an allowance against the loan receivable (Note 2).

Lofts at Union Square

The Authority has approved grants of \$150,000, a loan of \$200,000, and related expenses of \$56,673 for this project. As of December 31, 2012, the Authority had distributed grants of \$150,000, made loans of \$200,000, and had incurred expenses of \$56,673 in connection with this project.

Madison Handbags

The Authority has approved grants of \$50,000 and related expenses of \$1,742 for this project. As of December 31, 2012, the Authority had distributed grants of \$50,000 and incurred expenses of \$1,742 in connection with this project.

M/E Engineering, P.C. Relocation Project

The Authority has approved a grant of \$100,000 and related expenses of \$10,000 for this project. As of December 31, 2012, the Authority had distributed a grant of \$66,666 and had incurred expenses of \$675 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2012 and 2011

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

Mexican Radio Schenectady

The Authority has approved a grant of \$256,000 and related expenses of \$50,000 for this project. As of December 31, 2012, the Authority had not distributed any of the grant and had incurred expenses of \$3,723 in connection with this project.

National Grid EDP Grant

The Authority has approved a grant of \$14,816 for this project. As of December 31, 2012, the Authority had distributed a grant of \$14,816 in connection with this project.

NY Folklore Society Relocation

The Authority has approved grants of \$5,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$5,000 in connection with this project.

Parking Infrastructure Program

The Authority has approved expenditures of \$498,000 for this project. As of December 31, 2012, the Authority had incurred expenses of \$484,849 in connection with this project.

Parking Improvements Program

The Authority has approved expenditures of \$803,168 for this project. As of December 31, 2012, the Authority had incurred expenses of \$803,168 in connection with this project.

Parking Program

The Authority has approved expenditures for the operation of a parking garage and seven surface parking lots in the City of Schenectady. The revenues from the parking system are recorded as project revenues, and the operating expenses are recorded as project expenditures. During 2012 and 2011, the Authority had expenditures of \$1,475,007 and \$1,569,836, respectively, in connection with this project.

Parking Remediation

The Authority has approved expenditures of \$594,400 for this project. As of December 31, 2012, the Authority had incurred expenditures of \$436,561 in connection with this project.

Patriot Square Development

The Authority has approved expenditures of \$10,000 for this project. As of December 31, 2012, the Authority had incurred expenditures of \$3,940 in connection with this project.

Paul Mitchell School

The Authority has approved a grant of \$311,400, a loan of \$250,000, and expenditures of \$24,839 in connection with this project. As of December 31, 2012, the Authority had distributed a grant of \$311,400, made a loan of \$250,000, and had incurred expenditures of \$24,839 in connection with this project.

Pizza King

The Authority has approved grants of \$3,000 for this project. As of December 31, 2012, the Authority had distributed \$3,000 of the grants in connection with this project.

Save Mor Cleaners

The Authority has approved a grant of \$2,500 for this project. As of December 31, 2012, the Authority had distributed \$2,500 of the grant in connection with this project.

SCENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

Schenectady Armory Project

The Authority has approved expenditures of \$10,000 for this project. As of December 31, 2012, the Authority had incurred expenditures of \$600 in connection with this project.

Schenectady County CDBG Fund

The Authority has approved a grant of \$29,175 for this project. As of December 31, 2012, the Authority had distributed \$25,742 of the grant in connection with this project.

Schenectady Heritage Area Visitor Center

The Authority has approved grants of \$220,000 and related expenses of \$5,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$219,217 and incurred expenses of \$2,121 in connection with this project.

Stockade View Apartments Façade

The Authority has approved a grant of \$350,000 and related expenses of \$25,000 for this project. As of December 31, 2012, the Authority had distributed a grant of \$350,000 and had incurred expenses of \$7,401 in connection with this project.

Stratton Air National Guard Case Support Grant

The Authority has approved grants of \$25,000 for this project. As of December 31, 2012, the Authority had distributed \$25,000 of grants in connection with this project.

Sweet Temptations

The Authority has approved grants of \$15,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$15,000 in connection with this project.

13 State Street Purchase (YMCA)

The Authority has approved a grant of \$2,000,000 and related expenses of \$75,000 for this project. As of December 31, 2012, the Authority did not distribute any grant and had incurred expenses of \$3,007 in connection with this project.

Tara Kitchen

The Authority has approved grants of \$20,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$20,000 in connection with this project.

Transfinder Corporation Relocation

The Authority has approved a grant of \$360,000 and related expenses of \$50,000 for this project. As of December 31, 2012, the Authority had received a 2012 grant requisition for payment of \$150,000, had distributed \$150,000 of grants, and had incurred expenses of \$67,707 in connection with this project.

Upper Union Street Façade Programs

The Authority has approved grants of \$944,139 and related expenses of \$11,790 in connection with this project. As of December 31, 2012, the Authority had distributed grants of \$944,139 and had incurred \$11,790 in related expenses in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

Upper Union Streetscape

The Authority has approved grants of \$1,215,000 and related expenses of \$50,000 in connection with this project. As of December 31, 2012, the Authority had distributed \$1,118,626 of the grants and incurred \$102,363 in related expenses in connection with this project.

308 Union Street Façade

The Authority has approved a grant of \$60,000, a loan of \$450,000, and expenditures of \$20,000 in connection with this project. As of December 31, 2012, the Authority had distributed a grant of \$60,000 and had incurred expenditures of \$28,625 in connection with this project.

414 Union Street Façade

The Authority has approved grants of \$30,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$30,000 in connection with this project.

Van Guysling Avenue

The Authority has approved grants of \$374,101 and related expenses of \$10,000 for this project. As of December 31, 2012, the Authority had distributed grants of \$374,101 and had incurred expenses of \$10,000 in connection with this project.

Project grants distributed and expenditures incurred, net of project grant revenues, during the years ended December 31, 2012 and 2011, and undistributed project commitments at December 31, 2012, were as follows:

	Project Grants and Expenditures 2012	Unspent Project Commitments at December 31, 2012	Project Grants and Expenditures 2011
3N2, LLC	\$ -	\$ -	\$ 85,777
AAA Northway Relocation	251,293	5,707	-
Adirondack Trailways Façade	1,289	88,711	-
Alco Redevelopment	-	-	5,000
Airport Technology Park Infrastructure	-	33,565	-
Bel Cibo Gourmet Foods and Spices	15,000	-	-
Benchmark Printing Expansion	151,590	-	-
Capitol Plaza (Rotterdam) Renovation	-	-	3,262
Clinton's Ditch Phase 1& 2	66,595	-	906
Countywide Façade Program	-	-	49,569
Detmas Retention	-	-	6,000
DHA Holdings, Inc.	103,402	-	-
Downtown Denny's Façade	-	-	25,865
Downtown Façade Program V	-	-	20,839
Downtown Fix-up Program	267,172	28,028	-
Downtown Special Assessment Districts	131,819	48,681	332,738
Draper School Redevelopment Project	4,186	69,738	76
Duanesburg Waste Water Study	-	-	17,930
Electro Fiber Technologies LLC	102,704	-	-
Foster Building	15,355	19,507	1,282,423
Gateway Plaza Redesign Study	20,000	-	-

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

	Project Grants and Expenditures 2012	Unspent Project Commitments at December 31, 2012	Project Grants and Expenditures 2011
	<u>2012</u>	<u>2012</u>	<u>2011</u>
Gather's Granola/Sanz Branz	7,500	-	-
GEMx Advanced Battery	5,003,511	41,129	3,436
Jay Street Lighting Project - Phase 2	72,658	17,342	-
162-166 Jay Street Renovation Project	21,285	-	-
JTT Empire	7,988	-	-
K-Mart Plaza Redevelopment	182,047	-	50,816
LaSartoria Clothing Store	50,000	-	19,519
Lofts at Union Square	109,990	-	96,683
Madison Handbags	51,742	-	-
M/E Engineering, P.C. Relocation	33,333	42,659	33,844
Mexican Radio Schenectady	3,723	302,277	-
National Grid EDP Grant	14,816	-	-
NY Folklore Society Relocation	-	-	5,000
Parking Infrastructure Program	404,601	13,151	80,248
Parking Improvements	-	-	34,838
Parking Program	1,475,007	-	1,569,836
Parking Remediation	5,102	157,839	22,582
Patriot Square Development	3,940	6,060	-
Paul Mitchell School	-	-	116,775
Pizza King	3,000	-	-
Save Mor Cleaners	-	-	2,500
Schenectady Armory	600	9,400	-
Schenectady County CDBG	25,742	3,433	-
Schenectady Heritage Area Visitor Center	26,868	3,662	194,470
Stockade View Apartments Façade Project	-	17,599	-
Stratton Air National Guard Base Support Grant	-	-	25,000
Sweet Temptations	-	-	15,000
13 State Street Purchase (YMCA)	-	2,071,993	3,007
Tara Kitchen	-	-	20,000
Transfinder Corporation Relocation	190,800	42,293	176,907
Upper Union Street Façade Programs	511	-	89,350
Upper Union Streetscape	192,083	44,011	488,932
308 Union Street Façade	88,625	36,375	-
414 Union Street Façade	30,000	-	-
Van Guysling Avenue	-	-	55,752
Professional services and predevelopment costs (a)	453,661	-	403,616
	<u>9,589,538</u>	<u>\$ 3,103,160</u>	(b) <u>5,338,496</u>
Project grant revenues	<u>(1,237,749)</u>		<u>(807,417)</u>
	<u>\$ 8,351,789</u>		<u>\$ 4,531,079</u>

- (a) Professional services and predevelopment costs represent costs incurred by the Authority during the review and planning phase of the project approval process. In addition, at times, certain professional fees are incurred by the Authority in connection with approved projects. These costs are not included in the approved grant amount.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011**

NOTE 8 - PROJECT GRANTS AND COMMITMENTS - Continued

- (b) Unspent project commitments are subject to meeting project requirements prior to the Authority's release of the funds.

From inception through December 31, 2012, the Authority has approved project grants, expenditures, and loans totaling \$146,258,379, of which \$143,155,219 has been distributed.

NOTE 9 - NET POSITION

The Authority has reported a deficit in its net position as of December 31, 2012. This deficit is the result of cumulative project grants and expenditures in excess of net revenues. Funding for these expenditures was mostly provided by proceeds of the Authority's bond obligations which will be repaid over the statutory life of the Authority from future sales tax revenues. Current holders of the Authority's bonds have been provided with a direct pledge of these future amounts to ensure full repayment of existing obligations, and the Authority has established conservative guidelines under its General Bond Resolution that preclude further borrowings unless repayment capacity can be demonstrated.

NOTE 10 - NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM

a. Plan Description

The Authority participates in the New York State Employees' Retirement System (NYSERS). This is a cost sharing, multiple employer retirement system. The NYSERS provides retirement benefits as well as death and disability benefits. Obligations of the 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 serves as sole trustee and administrative head of the NYSERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transactions of the NYSERS, and for the custody and control of its funds. The NYSERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

b. Funding Policy

The NYSERS is noncontributory except for (1) employees who joined the New York State and Local Employees' Retirement System after July 27, 1976, who contribute 3% of their salary for the first ten years of membership, and (2) employees who join after January 1, 2010, will contribute 3% of their salary for their entire career. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. Contributions to the NYSERS for the years ended December 31, were as follows:

2012	\$ 73,965
2011	53,694
2010	39,915

The Authority's contributions made to the System were equal to 100% of the contributions required for each year.

NOTE 11 - COMMITMENTS AND CONTINGENCIES

a. Bonds and Notes

The Authority has the ability to issue bonds, notes, or other obligations to pay for the cost of any project. As more fully described in the Act, the principal amount of such outstanding obligations shall not exceed \$75,000,000. At December 31, 2012, the Authority had issued a total of \$56,335,000 in bonds. There were \$42,095,000 and \$44,815,000 of outstanding obligations, related to its General Resolution Bonds described in Note 6, at December 31, 2012 and 2011, respectively.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 - COMMITMENTS AND CONTINGENCIES - Continued

b. Collateralization, Bank Deposits

The Authority's cash deposits must be fully collateralized at all times. As of December 31, 2012, the Authority's bank deposits were fully collateralized or insured by the FDIC.

c. Leases

In December 2010, the Authority entered into a five-year lease agreement for its office space. Monthly payments range from \$4,327 per month to \$4,710 per month over the lease term.

The Authority also leases an automobile for use by its Executive Director. Terms of the lease include monthly payments of \$375 and expires November 2014.

Total lease expense was \$56,591 and \$59,390 at December 31, 2012 and 2011, respectively.

A summary of future minimum annual payments under these leases is as follows:

For the year ending December 31, 2013	\$ 59,490
2014	60,268
2015	56,518
	<hr/>
	\$ 176,276
	<hr/>

d. Employment Agreement

The Authority has entered into a contract with its Executive Director which states that the Executive Director shall receive severance pay equal to 50% of his annual salary upon termination.

e. Return of Revenues

In the event that the sales tax revenues the Authority receives from Schenectady County exceed its current liabilities by more than 10% at the end of its fiscal year, after a lawful deposit in its reserve fund of not less than 5% of its revenues, and after a lawful deposit into its construction and development account in the amount necessary to provide payment for the anticipated projects of the next fiscal year, then the Authority shall return to the County 75% of such surplus amount.

During the year ended December 31, 2012, the Authority recognized sales tax revenues of \$8,013,075. As of December 31, 2012, the Authority has outstanding project and loan commitments totaling \$3,103,160, which the Authority has authorized to be distributed in the next fiscal year. The Authority also has current liabilities of \$9,410,202 at December 31, 2012, payable during 2013.

As of December 31, 2012, the Authority was not obligated to return revenues to the County, other than those described in Note 7.

f. Litigation Claims

The Authority is involved in an action for alleged breach of contract relating to the development of a property. In management's and counsel's opinion, if the action moves forward, the Authority has numerous strong defenses. While there is a likelihood the action will be dismissed, it is impossible to predict any final outcome.

The Authority is involved in several claims from outside parties. Either no formal action has commenced as a result of these claims or they are in the discovery stage, and the claims are being reviewed by management and counsel for merit. As a result, management and counsel cannot render an opinion on the merits of the claims or their potential effects, if any, on the financial position of the Authority as of the date of this report.

No adjustments have been made to the financial statements related to these claims.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS
December 31, 2012 and 2011

NOTE 11 - COMMITMENTS AND CONTINGENCIES - Continued

g. Environmental Risks

Certain facilities are subject to federal, state, and local regulations relating to the discharge of materials into the environment. Compliance with these provisions has not had, nor does the Authority expect such compliance to have, any material effect upon the capital expenditures or financial condition of the Authority. Management believes that its current practices and procedures for control and disposition of regulated wastes comply with applicable federal, state, and local requirements.

NOTE 12 - RESTATEMENT

As required by GASB Statement No. 65, the Authority's 2011 financial statements have been restated to remove the balance of bond issuance costs, net as of January 1, 2011. The restatement resulted in a \$1,187,628 decrease in total assets and unrestricted net position.

NOTE 13 - ACCOUNTING STANDARD ISSUED BUT NOT YET IMPLEMENTED

In March 2012, GASB issued Statement No. 66, *Technical Corrections - an amendment of Statements No. 10 and No. 62*. This statement establishes clarification on two recently issued statements; No. 54, *Fund Balance Reporting and Governmental Fund Type Definition* and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement resolves conflicting guidance created as a result of the issuance of these two statements. This statement is effective for periods beginning after December 15, 2012, with earlier application encouraged.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this statement.

The scope of this statement also addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have certain characteristics as defined in the statement. It establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about pensions also are addressed. This statement is effective for periods beginning after June 15, 2014, with early implementation encouraged.

Management has not yet estimated the potential impact of the statements on the Authority's financial statements.

NOTE 14 - SUBSEQUENT EVENTS

In January 2013, the Authority issued bond anticipation notes totaling \$5,000,000.

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

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

We have audited, 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, the statement of net position of the Schenectady Metroplex Development Authority (Authority), as of December 31, 2012, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 14, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 12-01 through 12-03.

We noted certain matters that we reported to the management of the Authority in a separate letter dated March 14, 2013.

The Authority's Responses to Findings

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Authority's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Ballam Sheedy Tolan & Co. CP

Albany, New York
March 14, 2013

SCHEENECTADY METROPLEX DEVELOPMENT AUTHORITY

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2011**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements? _____ Yes X No

Section II - Financial Statement Findings

None.

Section III - Compliance Findings

12-01. Posting and Maintaining Reports and Policies on Public Authority Website

Criteria: The New York State Authority Budget Office (ABO) issued Policy Guidance on April 12, 2010, in response to The Public Authorities Reform Act (PARA) of 2009. This guidance states that public authorities are required to make specific information available to the public through the internet.

Condition: Required Authority reports and policies are currently not available to the public through the internet.

Effect: The Authority is not in compliance with PARA requirements.

Cause: The Authority did not oversee proper maintenance of the website.

Recommendation: Using available ABO guidance, the Authority should update its website and schedule periodic maintenance and review to ensure required information is available to the public in a timely manner.

View of Responsible Officials: The Authority is in the process of updating its website to be in compliance with ABO requirements.

12-02. Board Training

Criteria: In accordance with Section 2824 of Public Authorities Law, individuals appointed to the Board are to participate in state approved training regarding their legal fiduciary, financial, and ethical responsibilities within one year of appointment to the Board.

Condition: A portion of the Authority's Board members may not be aware of their responsibilities as a member of the Board.

Effect: The Authority was not in compliance with Section 2824 of Public Authorities Law.

Cause: Not all of the Authority's Board member have attended the required training.

Recommendation: The Authority should ensure that all Board members attend the required training.

View of Responsible Officials: The Executive Director will ensure that Board members receive the requisite training during the next fiscal period.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2011

Section III - Compliance Findings - Continued

12-03. Debt Service Reserve Fund

Criteria: In accordance with the General Resolution for the General Resolution Refunding Bonds, in 2012 the Authority is required to fund a debt service reserve fund at a level not less than one half of the maximum annual debt service.

Condition: As of December 31, 2012, the funds held in the debt service reserve fund related to the 2012 bond issuance were less than the required level.

Effect: The Authority was not in compliance with the General Resolution for the General Resolution Refunding Bonds, 2012.

Cause: Management did not accurately determine the amount of funding to be transferred into the debt service reserve fund at the issuance of the 2012 bond issuance.

Recommendation: The Authority should ensure that all debt service reserve funds meet the required funding levels.

View of Responsible Officials: The Director of Finance will ensure that sufficient funds are transferred to the debt service reserve fund when the quarterly payment of sales tax revenue is received during April 2013.