

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

FINANCIAL REPORT

December 31, 2004 and 2003

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Schenectady Metroplex Development Authority

We have audited the accompanying balance sheets of Schenectady Metroplex Development Authority (a New York public benefit corporation) as of December 31, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Schenectady Metroplex Development Authority as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, during the year ended December 31, 2004, the Schenectady Metroplex Development Authority changed its financial accounting and reporting to comply with the provisions of Statement No. 34 of the Governmental Accounting Standards Board.

Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Bollam Sheedy Torani & Co LLP

Albany, New York
March 16, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Schenectady Metroplex Development Authority, hereafter referred to as the "Authority," is pleased to present its Financial Report for the year ended December 31, 2004, 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 2 to 7 in conjunction with the Authority's financial statements (presented on pages 8 to 28) 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 financial position, results of operations, and cash flows of the Authority in conformity with accounting principles generally accepted in the United States of America.

AUDIT ASSURANCE

The unqualified (i.e., clean) opinion of our independent external auditors, Bollam, Sheedy, Torani & Co. LLP, CPAs, is included on page 1 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, 2004. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The year 2004 marked another outstanding year for the Authority. The Authority continued 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 2004 results:

- Total operating revenues declined at a modest 2.4%. The bulk of the decrease can be attributed to a nonrecurring correction of prior period sales tax revenues as determined by the New York State Department of Taxation and Finance. In addition, a decline in other operating revenues occurred as a result of the disposition of rental property.
- Total operating expenses increased by 22.2%. Staff additions and upgrades, higher unit costs of employee benefits, and nonrecurring transactions for tenant relocations and terminations contributed significantly to the increase.
- The Authority closed its second, tax-exempt bond issue in September 2004, issuing \$14,000,000 in new fixed-rate bonds for the benefit of new development projects, increasing total bond debt to \$21,270,000 and increasing interest expense significantly during the period as well.
- Total assets increased by 27.7% to \$26.7 million. The majority of this increase was in cash and cash equivalents of \$3.2 million and in the growth of the loan portfolio of \$2.15 million.
- Net operating revenues declined by \$352,937, or 5.8% from those of 2003. Other revenues and expenses further reduced net revenues by \$174,768. The net revenues were \$5.5 million, compared to \$6.0 million in 2003.
- Project grants and expenditures increased by \$6.2 million to \$13.2 million. This resulted in accumulated earnings of \$4.7 million compared to \$12.4 million in 2003.

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 balance sheet includes all of the Authority's assets 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 and expenses. 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 and rates established by the Public Authorities Law and the Executive Law of the State of New York.

The statement of changes in net assets represents the accumulated earnings of the Authority, since inception, less project grants and expenditures disbursed.

The final required financial statement is its 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 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.

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 (the "service district"), for the economic prosperity, health, safety and general welfare of the people of the State of New York, through the construction, development, location 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, 2028, one half of one percent of all sales and compensating use tax revenue received by Schenectady County, 70% of which accrues to the Authority's general fund, which may be used to support all of its statutorily authorized purposes and powers. All remaining sales tax revenue received by Authority is transferred to the Schenectady County Real Property Tax Abatement and Economic Development Fund. 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 Authority's current liabilities, reserve fund requirements and anticipated project funding requirements.

FINANCIAL ANALYSIS

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

Condensed Balance Sheets

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current assets	\$18,589,403	\$ 15,950,834	\$ 2,638,569	16.5%
Capital assets, net	50,972	54,640	(3,668)	-6.7%
Other assets	<u>8,058,707</u>	<u>4,904,031</u>	<u>3,154,676</u>	64.3%
Total assets	<u>\$26,699,082</u>	<u>\$ 20,909,505</u>	<u>\$ 5,789,577</u>	27.7%
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 1,363,013	\$ 1,244,342	\$ 118,671	9.5%
Long-term debt	20,653,647	7,270,000	13,383,647	184.1%
Net assets invested in capital assets, net of related debt	50,972	54,640	(3,668)	-6.7%
Net assets, restricted	1,312,758	524,673	788,085	150.2%
Net assets, unrestricted	<u>3,318,692</u>	<u>11,815,850</u>	<u>(8,497,158)</u>	-71.9%
Total liabilities and net assets	<u>\$26,699,082</u>	<u>\$ 20,909,505</u>	<u>\$ 5,789,577</u>	27.7%

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

	<u>2004</u>	<u>2003</u>	<u>\$ Change</u>	<u>% Change</u>
Sales tax revenue	\$ 6,704,961	\$ 6,817,082	\$ (112,121)	-1.6%
Other operating revenues	<u>10,377</u>	<u>66,857</u>	<u>(56,480)</u>	-84.5%
Total operating revenues	<u>6,715,338</u>	<u>6,883,939</u>	<u>(168,601)</u>	-2.4%
Depreciation and amortization	22,071	20,363	1,708	8.4%
Other operating expenses	<u>992,278</u>	<u>809,650</u>	<u>182,628</u>	22.6%
Total operating expenses	<u>1,014,349</u>	<u>830,013</u>	<u>184,336</u>	22.2%
Net operating revenues	5,700,989	6,053,926	(352,937)	-5.8%
Other financing sources (uses)	<u>(173,765)</u>	<u>1,003</u>	<u>(174,768)</u>	-17424.5%
Increase in net assets	5,527,224	6,054,929	(527,705)	-8.7%
NET ASSETS, beginning of year	12,395,163	13,362,834	(967,671)	-7.2%
Project grants, net of project grant revenues	<u>(13,239,965)</u>	<u>(7,022,600)</u>	<u>(6,217,365)</u>	88.5%
NET ASSETS, end of year	<u>\$ 4,682,422</u>	<u>\$ 12,395,163</u>	<u>\$(7,712,741)</u>	-62.2%

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2004, the pace of the Authority's redevelopment efforts in the downtown core of Schenectady increased significantly. The proceeds of the 2004 Bonds will be used to fund a downtown entertainment district project with a \$9.5 million grant to the Arts Center & Theater of Schenectady Inc. as part of a planned \$24 million expansion and renovation of the historic Proctor's Theater in the downtown. In addition, \$4 million in proceeds will contribute to the Authority's acquisition of an 1,100 vehicle parking garage as part of its plans to develop a fully-integrated parking system for the furtherance of downtown redevelopment.

The Authority has also approved \$12.8 million in additional project expenses in 2004, as compared to only \$7.4 million during 2003, almost entirely within the City of Schenectady and predominantly in its downtown core.

FINANCIAL CONDITION

The overall financial position of the Authority was strong at year-end, with revenue (excluding unusual items) remaining consistent with that of the prior year. Total expenses in 2004 increased \$184,336 from the prior year, much of it due to non-recurring items.

The Authority paid \$280,000 in bond principal during 2004. In addition, \$1.2 million in lease payments were made during the period and included in project grants and expenditures.

Despite slight fluctuations in its sales tax revenues, taxable sales have grown at an average annual rate of 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 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 2004, exclusive of unrealized gain/loss on investments, was \$6,715,338, compared to \$6,883,939 in 2003.

Expense

Total expense for the year 2004, were \$1,014,349, compared to \$830,013 in 2003. Cash or equivalents on hand for debt service payments remained in excess of \$16.5 million.

LONG-TERM OBLIGATIONS

As of December 31, 2004, the Authority had \$21,270,000 outstanding related to two separate general resolution bonds issued in 2001 and 2004. The bonds mature in 2021 and 2024, respectively. Principal payments related to these bonds will total \$770,000 during 2005. In addition to these bonds, the Authority has certain obligations related to a ten-year bond issued by the Schenectady County IDA. These obligations include lease payments equal to all principal and interest payments on the bonds, as well as a letter-of-credit fee based on the outstanding bond balance. The balance of this bond was \$7,875,000 at December 31, 2004.

More detailed information about the Authority's long-term obligations is presented in the notes to the financial statements on pages 17 and 18.

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. 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.

The County Legislature appointed five new members to the Board in 2004 (including Chair and Vice Chair) pursuant to §2653 of the Authority's enabling statute.

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

CONTACTING THE AUTHORITY'S DIRECTOR OF FINANCE

This financial report is intended to provide a general overview of the Authority's financial 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 Authority's Board of Directors, appointed by the Schenectady County Legislature, are as follows:

<u>Name</u>	<u>Board Office</u>	<u>Term Expiration</u>
Ray Gillen	Chair	December 31, 2009
Bradley G. Lewis	Vice Chair	December 31, 2009
Arthur C. Brassard	Secretary	December 31, 2007
Ken Bulko	Treasurer	December 31, 2007
Neil M. Golub		December 31, 2009
Janet Hutchison		December 31, 2009
Sharon A. Jordon		December 31, 2007
Robert J. Mantello		December 31, 2009
Gary McCarthy		December 31, 2007
David Sterman		December 31, 2007
Robert L. Wall		December 31, 2007

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

BALANCE SHEETS

December 31,

ASSETS	<u>2004</u>	<u>2003</u> (Restated)
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 15,276,195	\$ 12,091,112
Cash, restricted	100,357	89,131
Investments, unrestricted	14,690	14,556
Accounts receivable	2,796,407	3,490,154
Current installments of loans receivable	307,113	196,265
Interest receivable	15,031	16,004
Prepaid expenses, current portion	52,927	40,963
Bond issuance costs, current portion	26,683	12,649
Total current assets	<u>18,589,403</u>	<u>15,950,834</u>
 CAPITAL ASSETS, net	 <u>50,972</u>	 <u>54,640</u>
 OTHER ASSETS		
Loans receivable, less current installments	5,896,060	3,854,627
Note receivable	300,000	300,000
Investment reserves, restricted	1,312,758	524,673
Bond issuance costs, net of amortization	462,389	214,731
Prepaid expenses	87,500	-
Deposit on land	-	10,000
	<u>8,058,707</u>	<u>4,904,031</u>
	 <u>\$ 26,699,082</u>	 <u>\$ 20,909,505</u>
 LIABILITIES AND NET ASSETS		
 CURRENT LIABILITIES		
Current installments of bonds payable	\$ 770,000	\$ 280,000
Accounts payable and accrued expenses	311,796	859,074
Accrued interest	180,860	16,137
Escrow payable	100,357	37,981
Obligations under grant agreement	-	51,150
Total current liabilities	<u>1,363,013</u>	<u>1,244,342</u>
 LONG-TERM DEBT		
Bonds payable, less current installments	20,500,000	7,270,000
Deferred revenue	15,000	-
Premium on bonds, net of amortization	138,647	-
	<u>20,653,647</u>	<u>7,270,000</u>
 NET ASSETS		
Invested in capital assets, net of related debt	50,972	54,640
Restricted	1,312,758	524,673
Unrestricted	3,318,692	11,815,850
	<u>4,682,422</u>	<u>12,395,163</u>
	 <u>\$ 26,699,082</u>	 <u>\$ 20,909,505</u>

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 ASSETS
Years Ended December 31,

	<u>2004</u>	<u>2003</u> (Restated)
OPERATING REVENUES		
Sales tax revenues	\$ 6,704,961	\$ 6,817,082
Rent, Canal Square	<u>10,377</u>	<u>66,857</u>
	<u>6,715,338</u>	<u>6,883,939</u>
OPERATING EXPENSES		
Payroll	408,915	339,079
Payroll taxes	31,148	27,226
Pension plan	43,548	16,809
Health insurance	34,841	30,687
Accounting	32,440	29,000
Advertising	-	44,628
Automobile	6,626	6,697
Consulting	24,373	23,417
Depreciation and amortization	22,071	20,363
Dues and subscriptions	5,239	3,886
Educational training	3,143	7,148
Hosting and travel	9,222	8,317
Insurance	11,869	11,284
Legal	39,039	22,551
Office supplies	41,491	23,696
Operating expenses, Canal Square	206,687	133,392
Postage	5,157	4,990
Recruitment	1,636	4,515
Rent	34,066	32,358
Repairs and maintenance	14,421	12,052
Resource data	25,414	16,351
Telephone	<u>13,003</u>	<u>11,567</u>
	<u>1,014,349</u>	<u>830,013</u>
Net operating revenues	<u>5,700,989</u>	<u>6,053,926</u>
OTHER FINANCING SOURCES (USES)		
Investment earnings	370,275	388,674
Interest expense	(543,241)	(387,294)
Amortization of bond issuance costs	(19,191)	(14,950)
Miscellaneous revenue	<u>18,392</u>	<u>14,573</u>
	<u>(173,765)</u>	<u>1,003</u>
Increase in net assets	5,527,224	6,054,929
NET ASSETS, beginning of year	12,395,163	13,362,834
Project grants and expenditures, net of project grant revenues	<u>(13,239,965)</u>	<u>(7,022,600)</u>
NET ASSETS, end of year	<u>\$ 4,682,422</u>	<u>\$ 12,395,163</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

STATEMENTS OF CASH FLOWS

Years Ended December 31,

	<u>2004</u>	<u>2003</u> (Restated)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from sales tax revenues	\$ 7,398,708	\$ 5,952,559
Cash received from rent, Canal Square	10,377	66,857
Cash paid to suppliers and other vendors	(473,826)	(395,849)
Cash paid for salaries and employee benefits	(518,452)	(413,801)
	<u>6,416,807</u>	<u>5,209,766</u>
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance	14,000,000	-
Premium on bond issuance	138,647	-
Bond issuance costs	(280,883)	-
Repayment of bond principal	(280,000)	(270,000)
Interest paid	(378,518)	(387,294)
Bond administrative fees	-	(2,001)
Obligations under lease agreement	-	(114,548)
	<u>13,199,246</u>	<u>(773,843)</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of office furniture and equipment	<u>(18,403)</u>	<u>(10,374)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Change in cash, restricted	11,226	(25,417)
Proceeds from sale of investments, unrestricted	-	1,008,347
Purchase of investments, unrestricted	(134)	(14,556)
Purchase of investment reserves, restricted, net	(788,085)	(4,763)
Issuance of loans receivable	(2,346,067)	(1,414,549)
Repayment of loans receivable	193,786	87,349
Obligations under grant agreements	(51,150)	51,150
Investment earnings received	371,248	375,751
Miscellaneous revenue	18,392	14,573
Project grants and expenditures paid, net of project grant revenues received	(13,821,783)	(6,249,968)
	<u>(16,412,567)</u>	<u>(6,172,083)</u>
Net increase (decrease) in cash and cash equivalents	3,185,083	(1,746,534)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>12,091,112</u>	<u>13,837,646</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$15,276,195</u>	<u>\$12,091,112</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating revenues	\$ 5,700,989	\$ 6,053,926
Adjustments to reconcile net operating revenues to net cash provided (used) by operating activities		
Depreciation and amortization	22,071	20,363
(Increase) decrease in accounts receivable	693,747	(864,523)
	<u>\$ 6,416,807</u>	<u>\$ 5,209,766</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES

1. *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 the additional sales and compensating use taxes to begin on September 1, 1998, and to end on August 31, 2028. 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.

2. *Accounting Method*

The Authority's financial statements are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for public authorities. Under this method, income is recognized as earned and expenses are recognized as incurred whether or not cash is received or paid out at that time. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The December 31, 2004, financial statements include the implementation of GASB No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*. This new standard provides for significant changes in terminology; inclusion of a management discussion and analysis as supplementary information; and other changes.

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required 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. The Authority used significant estimates in determining accounts receivable related to sales tax revenues for the months of December 2004 and 2003. Actual results could differ from those estimates.

3. *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, 2028, and shall annually deposit such net collections received therefrom in the Schenectady Metroplex Development Authority Support Fund. Beginning January 1, 1999, and then quarterly thereafter, the County shall transfer 70% of all net collections received from the one-half of one percent to the Authority.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

4. *Cash and Cash Equivalents*

Cash and cash equivalents consist of cash deposits and other investments with maturity dates of three months or less from original issue date. The collateral securing these cash deposits consist of holdings of direct obligations of the U.S. Treasury and U.S. Agencies. Interest earnings on cash and cash equivalent deposits totaled \$205,516 and \$224,319 for the years ended December 31, 2004 and 2003, respectively.

5. *Cash, Restricted*

At December 31, 2004, restricted cash consisted of escrow deposits held for the Downtown Schenectady Façade Program (Note F).

Restricted cash at December 31, 2003, consisted of deposits held in connection with a grant received from Schenectady County related to the Hillside Commerce Park project and deposits held in escrow related to the Downtown Schenectady Façade Program (Note F).

6. *Investments, Unrestricted*

The Authority accounts for its investments, unrestricted, at fair value. All investments have a maturity date of three months or more from original purchase date. Interest earnings plus realized gains (losses) on these investments totaled \$9,562 and \$12,562 for the years ended December 31, 2004 and 2003, respectively.

7. *Receivables*

Accounts receivable generally consist of amounts due from the County from the sales and compensating use tax collections plus interest thereon. These amounts, partially based upon 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, 2004 and 2003.

In addition, as of December 31, 2003, the Authority was due \$695,065 from the Schenectady County IDA for the reimbursement of excess project expenditures related to the MVP Parking Garage (Note F). This amount was received during January 2004.

Loans receivable are carried at original loan amount less payments of principal received.

Management considers 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.

8. *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. 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, 2004 and 2003**

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

8. *Capital Assets - Continued*

Depreciation is provided 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. Capital assets are summarized as follows:

	January 1, <u>2004</u>	<u>Additions</u>	<u>Dispositions</u>	December 31, <u>2004</u>
Office furniture and equipment	\$105,654	\$ 18,403	\$ -	\$124,057
Leasehold improvements	<u>8,509</u>	<u>-</u>	<u>-</u>	<u>8,509</u>
	114,163	18,403	-	132,566
Accumulated depreciation	<u>(59,523)</u>	<u>(22,071)</u>	<u>-</u>	<u>(81,594)</u>
	<u>\$ 54,640</u>	<u>\$ (3,668)</u>	<u>\$ -</u>	<u>\$ 50,972</u>

9. *Budgets*

On or before August 15, the Chairman of the Authority is required to submit to the Director of Budget of the State of New York and the Chairman of the County Legislature's Ways and Means Committee, a budget that requests financial support for the operation of the Authority for the forthcoming fiscal year from New York State and the County.

10. *Income Taxes*

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.

11. *Related Party*

During 2002, the Authority created Metroplex Leasing, LLC (LLC), a related party, in which the Authority is the single member. The LLC was established for the purpose of acquiring (or leasing) certain real property that would benefit and further the mission of the Authority. As of December 31, 2004, the LLC leases two surface parking lots from the City of Schenectady. The parking lots are not in operation, generate no revenue, and are in need of repair and renovation. The Authority's Board has approved funding for the renovation of these parking lots (Note F). There were no other transactions between the Authority and the LLC during 2004 or 2003.

12. *Restatement of Prior Year*

As a result of the Authority's adoption of GASB No. 34, the fiscal year 2003 financial statements have been restated to conform to those changes. The adoption of Statement No. 34 had no effect on the basic financial statements except for the classification of net assets in accordance with Statement No. 34.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

13. New Accounting Standards

GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Authority will adopt this statement effective January 1, 2005, however, the Authority does not expect a material impact on its financial position or results of operations as a result of its adoption.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans*. This statement establishes uniform standards of financial reporting by state and local governments for other post-employment benefit plans. The statement provides standards for measurement, recognition, and display of assets, liabilities, and, where applicable, net assets and changes in net assets of such funds and for related disclosures. The Authority is required to implement this standard for the fiscal year ending December 31, 2009. The Authority has not yet determined the full impact that the adoption of GASB Statement No. 43 will have on the financial statements.

NOTE B - LOANS RECEIVABLE

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

	<u>December 31,</u> <u>2004</u>	<u>2003</u>
Child Program and Family Resource Center, repayable over a 15-year period (21-year amortization), due in monthly installments of \$2,623, including interest at 3%, matures June 2017, with a balloon payment for the remaining balance (a)	\$ 457,000	\$ 464,351
Cyclics Corporation, due in monthly installments of interest only at 7.5% through May 2004, then monthly installments of principal ranging from \$6,667 to \$14,000 plus interest at 7.5% through May 2007, with a balloon payment of \$955,633 on June 1, 2007 (b)	1,269,633	1,327,632
Opus Trails, due in monthly installments of \$2,900, including interest at 6%, matures December 2007, unsecured, guaranteed by the principals of the company	92,900	121,197
Parker Inn, repayable over a 15-year period (20-year amortization), due in monthly installments of principal ranging from \$1,491 to \$4,348, matures October 2018, with a balloon payment for the remaining balance, interest free (c)	780,666	798,651
River Stone Manor, repayable over an 8-year period (20 year amortization) due in monthly installments of \$3,545, including interest at 6%, matures September 2011, with a balloon payment for the remaining balance (d)	478,808	491,714

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	<u>2004</u>	<u>2003</u>
Cornell's Restaurant, repayable over a 15-year period, due in monthly installments of principal of \$500 for the first twelve months and \$1,353 thereafter, matures September 2018; interest free (e)	226,293	233,000
510 Union Street, repayable over a 15-year period, due in monthly installments of principal of \$1,944, matures May 2018; interest free (f)	313,056	336,389
Synthesis Architects, repayable over a 15-year period, due in monthly installments of principal of \$972, matures October 2018; interest free (g)	163,333	175,000
Waste Management and Recycling Products, repayable over a 15-year period, due in monthly installments of \$2,402, including interest at 6%, matures January 2008 (h)	79,773	102,958
Quality Roofing Supply, repayable over a 15-year period, due in monthly installments of principal of \$1,733, matures November 2019; interest free (i)	312,000	-
Send Word Now, repayable over a 5-year period, due in monthly installments of interest only at rates ranging from 1% to 5% and annual principal payments of \$200,000 beginning January 2008, matures December 2009 with a balloon payment for any remaining balance (j)	400,000	-
Highbridge Broadway, repayable over a 20-year period, due in monthly installments of principal of \$729, matures November 2019 with a balloon payment for the remaining balance; interest free (k)	173,542	-
Integra Development, repayable over a 15-year period, due in monthly installments of principal of \$580, matures December 2019; interest free (l)	101,418	-
Utech Products, repayable over a 15-year period (20 year amortization), due in monthly installments of principal ranging from \$2,708 to \$2,833, matures May 2019, with a balloon payment for the remaining balance; interest free (m)	356,397	-
Van Dyck Restaurant, due in full during May 2006, with interest rates ranging from 0% to 6% (n)	275,111	-
Zone 5 Regional Law Enforcement Training Center, repayable over a 15-year period (18 year amortization), due in monthly installments of principal of \$6,528, matures August 2022, with a balloon payment for the remaining balance; interest free (o)	723,243	-
	<u>6,203,173</u>	<u>4,050,892</u>
Less current installments	<u>307,113</u>	<u>196,265</u>
Loans, receivable, less current installments	<u>\$5,896,060</u>	<u>\$3,854,627</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003**

NOTE B - LOANS RECEIVABLE - Continued

- (a) Secured by a mortgage, subordinate to the primary lender.
- (b) Secured by a non-negotiable, convertible subordinated promissory note, convertible into the company's voting common shares as defined by the loan agreement.
- (c) Secured by a third mortgage on the property, a first lien on all furniture and fixtures, and guaranteed by the corporation and an assignment of leases and rents related to the property. During 2003, an additional loan of \$350,000 was issued.
- (d) Secured by a mortgage and assignment of rents relating to the property, subordinate to the primary lender and guaranteed by the principals of the related entities. During 2003, an additional loan of \$147,384 was issued.
- (e) Secured by a second mortgage on the property and a first lien position on the company's fixtures, furniture, and equipment.
- (f) Secured by a second mortgage on the property and guaranteed by the principals of the company and the building's tenants.
- (g) Secured by a third mortgage on the property, subordinate to the primary lenders, and personally guaranteed by certain principals of the entity.
- (h) Partially secured by a first lien on certain newly acquired equipment and is personally guaranteed by the principals of the company.
- (i) Secured by inventory and an assignment of rents and leases and guaranteed by the principals of the company.
- (j) Secured by equipment and an assignment of key life insurance policies and is personally guaranteed by a principal of the company.
- (k) Secured by a second mortgage on the property, an assignment of rents and leases, and certain fixed assets.
- (l) Secured by a second mortgage on the property, subordinate to the primary lender, and personally guaranteed by certain principals of the company.
- (m) Secured by a mortgage on the property, subordinate to the primary lender.
- (n) Secured by a mortgage on the property, subordinate to the primary lender, a first lien position on the company's furniture and equipment, and personally guaranteed by the company's owner.
- (o) Secured by a first mortgage on the property in the amount of \$527,500 and an assignment of New York State grant proceeds totaling \$400,000.

In addition, the Authority has approved loans to various entities. These loans were not yet advanced at December 31, 2004, and are as follows:

<u>Borrower</u>	<u>Approved Loan</u>
Send Word Now	\$ 400,000
Utech Products	323,603
Zone 5 Regional Law Enforcement Training Center	451,757
David Louis Floor Covering	220,000
Clinton's Ditch	50,000
FedEx Freight	40,625
Hampton Inn	2,000,000
Schenectady Family Health Services	1,500,000
Villa Italia	<u>400,000</u>
	<u>\$ 5,385,985</u>

Interest earnings on loans receivable were \$155,197 and \$151,793 for the years ended December 31, 2004 and 2003, respectively.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - NOTE RECEIVABLE

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 are due, and the note is noninterest bearing for ten years, at which time monthly payments will commence 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 and is guaranteed by a stockholder/president of L&S Realty, Inc.

NOTE D - BOND ISSUANCE COSTS, NET

The Authority has incurred certain costs related to the issuance of an \$8,080,000 General Resolution Bond, dated January 2002 and a \$14,000,000 General Resolution Bond, dated September 2004 (Note E). These costs, totaling \$533,861, are reported as Bond issue costs and are amortized over the life of the bonds (20 years) on a straight-line basis, beginning with the issuance of each bond. Accumulated amortization at December 31, 2004 and 2003, totaled \$44,789 and \$25,598, respectively. Amortization expense for each of the five years subsequent to December 31, 2004, will be \$26,688.

NOTE E - 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 (Note F). 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 bonds, payable on June 15 and December 15 of each year. The bonds will expire on December 15, 2021. Bonds maturing on or before December 15, 2011, are not subject to redemption prior to maturity. Bonds 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.

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 will begin in 2005. The approved projects include the Proctor's Theatre Expansion and the Broadway Garage acquisition (Note G). The terms of 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. The bonds will expire on September 15, 2024. 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.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE E - BONDS PAYABLE, NET - Continued

A summary of bond transactions is as follows:

	<u>2004</u>	<u>2003</u>
Bonds payable, beginning of year	\$ 7,550,000	\$ 7,820,000
Bond issues	14,000,000	-
Principal payments	<u>(280,000)</u>	<u>(270,000)</u>
Bonds payable, end of year	<u>\$ 21,270,000</u>	<u>\$ 7,550,000</u>

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

	<u>Principal</u>	<u>Interest</u>
For the year ending December 31, 2005	\$ 770,000	\$ 934,589
2006	795,000	910,169
2007	815,000	887,032
2008	850,000	853,656
2009	890,000	818,032
For the years ending December 31, 2010 through 2014	5,050,000	3,261,275
2015 through 2019	6,280,000	2,248,468
2020 through 2024	<u>5,820,000</u>	<u>739,024</u>
	<u>\$ 21,270,000</u>	<u>\$ 10,652,245</u>

Interest expense for the years ended December 31, 2004 and 2003, was \$543,241 and \$387,294, respectively. Interest paid during the years ended December 31, 2004 and 2003, totaled \$378,518 and \$387,294, 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 are held in trust by M&T Investment Group and are reported at fair value at December 31, as follows:

	<u>2004</u>	<u>2003</u>
<i>Investment reserves, restricted</i>		
Revenue Fund	\$ 34	\$ 14
Debt Service Reserve Fund	863,748	334,452
Debt Service Fund	<u>448,976</u>	<u>190,207</u>
	<u>\$1,312,758</u>	<u>\$ 524,673</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS

A summary of the Authority's project grants and commitments as of and for the year ended December 31, 2004, is as follows:

Broadway Parking Garage

The Authority had approved a grant to the City of Schenectady IDA (IDA) for construction of the Broadway Parking Garage in the amount of \$3,356,014. The total cost of the Broadway Parking Garage was \$7,856,014. The State of New York agreed to contribute \$4,500,000 to this project, which was received by the Authority during 2001 and subsequently distributed to the IDA in 2002. As of December 31, 2004, the Authority has incurred expenditures of \$7,856,014 on this project. (See Downtown Parking below.)

Canal Square Property Acquisition

The Authority has approved total expenditures of \$3,755,000 for the Canal Square Property Acquisition project to purchase and improve certain properties on State Street between Broadway and Clinton Streets. As of December 31, 2004, the Authority had incurred expenditures of \$3,384,813 for this project.

Canal Square Temporary Parking

The Authority has approved expenditures of \$110,761 for the Canal Square Temporary Parking project to construct a temporary parking lot at the corner of Broadway and State Street in downtown Schenectady. As of December 31, 2004, the Authority had incurred expenditures of \$110,761 for this project.

Canal Square Corridor Streetscape

The Authority has approved a grant to the City of Schenectady for the Canal Square Corridor Streetscape project in the amount of \$285,550 to evaluate the existing conditions, planning, and design for the phased redevelopment of Broadway and Clinton Street from State Street to Hamilton Hill. As of December 31, 2004, the Authority has incurred expenditures of \$19,804 in connection with this project.

Cornell's Restaurant

The Authority has approved a grant to Cornell's Restaurant in the amount of \$235,000 plus related expenditures of \$5,495. As of December 31, 2004, the Authority had distributed the grant of \$235,000 and incurred expenditures of \$5,495 for this project.

David Louis Floor Covering

The Authority has approved a grant of \$30,000 to David Louis Floor Covering. As of December 31, 2004, the Authority had made no distributions for this project.

Diamond Cinema

The Authority had approved \$69,653 in related expenditures for this project. As of December 31, 2004, the Authority had incurred expenditures of \$69,653 for this project.

SCENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

Downtown Schenectady Façade Program

The Authority has approved a grant to the Downtown Schenectady Improvement Corporation in the amount of \$277,000 to fund a façade program for downtown Schenectady property owners on a dollar-for-dollar matching grant. As of December 31, 2004, the Authority had distributed \$273,525 in connection with this grant.

Downtown Schenectady Façade Program II

The Authority has approved a grant of \$400,000 to the Downtown Schenectady Improvement Corporation to fund a façade program for downtown Schenectady property owners. The Authority has also approved expenditures in connection with this grant of \$2,500. As of December 31, 2004, the Authority had incurred no distributions or related expenses in connection with this project.

Downtown Parking

The Authority has approved expenditures of \$6,500,000 to acquire and renovate the Broadway Parking Garage and seven surface parking lots. Previously, these parking facilities were owned by the IDA and leased to the City of Schenectady. As of December 31, 2004, the Authority had incurred expenditures of \$5,378,747 in connection with this project.

Future revenues from the parking facilities will be reported as project revenues and will be offset against project expenditures. During November 2004, the Authority entered into a contract with Laz Parking, Ltd. to provide management and operational services related to the parking facilities. This contract, totaling \$30,000, will expire April 2005. It is the Authority's intent to renovate the property and operate the parking facilities prior to conveyance to another public entity or outside party consistent with overall efforts to promote economic development in downtown Schenectady.

Downtown Special Assessment District IV

The Authority has approved a grant of \$250,000 plus related expenditures of \$3,000 to the Downtown Schenectady Improvement Corporation with respect to operations funding the Downtown Special Assessment District for the enhancement of the physical environment and attraction, recruitment, and retention of small businesses to downtown Schenectady. As for December 31, 2004, the Authority had distributed \$121,000 in connection with this grant and incurred expenditures of \$270 for this project.

Duane Avenue Parking and Transportation

The Authority had approved a grant of \$506,000 to the City of Schenectady and a grant of \$500,000 to the City of Schenectady Industrial Development Agency for the Duane Avenue Parking and Transportation project. As of December 31, 2004, the Authority had distributed \$670,564 in connection with these grants.

FedEx Freight Infrastructure

The Authority has approved a grant of \$40,625 and \$5,000 for related expenses in connection with this project. As of December 31, 2004, the Authority had made no distributions or expenditures in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

Hampton Inn

The Authority has approved a grant of \$750,000 and \$50,000 for related expenses in connection with this project. As of December 31, 2004, the Authority had made no distributions or expenditures in connection with this project.

Highbridge Broadway

The Authority has approved a grant of \$75,000 and \$2,500 for related expenses in connection with this project. As of December 31, 2004, the Authority had made distributions of \$75,000 in grants and incurred \$365 in related expenses in connection with this project.

Hillside Commerce Park

The Authority has approved a grant of \$150,000 to Hillside Ventures, LLC to install and extend public infrastructure in the Hillside Commerce Park in the Town of Niskayuna. The Authority has also approved \$230 in expenditures in connection with this project. This project has been deemed eligible for reimbursement from funds received through a \$150,000 grant from Schenectady County. As of December 31, 2004, the Authority had distributed \$150,000 in connection with this grant. The remaining balance at December 31, 2003, from the Schenectady County grant, totaling \$51,150, had been reported as a liability (obligation under grant agreement) in these financial statements. The County grant was fully disbursed in 2004.

Little Italy

The Authority has approved a grant to the City of Schenectady in the amount of \$750,000 for improvements to the retail area of Jay Street. As of December 31, 2004, the Authority had distributed \$609,542 in connection with this grant.

MVP Parking Garage

In connection with the construction of a seven story, 175,000 square foot office building in downtown Schenectady, the Schenectady County IDA, with the financial backing of the Authority, acquired the necessary land and constructed an adjoining 875 space parking garage. In addition, streetscape and road improvements were made in the area of the garage.

The IDA is the owner of the project and has leased the garage to the Authority. The Authority, under the terms of the lease agreement, assigned to the building's owner all obligations of the lease agreement, except for the lease payments described below.

On December 1, 2000, the IDA issued 10-year adjustable interest rate bonds in the aggregate principal amount of \$10,690,000 to finance the acquisition and construction of the parking garage. The outstanding principal balance on these bonds was \$7,875,000 at December 31, 2004. Under the terms of the lease, the Authority is obligated to make lease payments equal to all principal and interest payments on the bonds, as well as a letter-of-credit fee based on the outstanding bond principal. The Authority's lease allows partial or full prepayment at pre-set repayment terms.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

MVP Parking Garage - Continued

Based on interest rates in effect at December 31, 2004, a summary of future lease payments is as follows:

For the year ending December 31, 2005	\$1,503,950
2006	1,526,228
2007	1,554,250
2008	1,582,484
2009	1,615,664
2010	<u>1,648,258</u>
	<u>\$9,430,834</u>

The Authority's payments under this lease totaled \$1,194,113 during 2004 and \$2,965,539 in prior years for total payments of \$4,159,652 on this project.

Princeton Water District

The Authority has approved a grant of \$284,750 to the Town of Princeton and expenditures of \$2,500 in connection with this project. As of December 31, 2004, the Authority had incurred expenditures of \$780 in connection with this project.

Proctor's Theatre

The Authority has approved a grant of \$9,500,000 to the Arts Center & Theatre of Schenectady and \$50,000 in related expenses in connection with this project. As of December 31, 2004, the Authority had distributed \$1,510,889 in connection with this project.

Schenectady County Community Business Center

The Authority had approved a grant of \$110,000 and related expenses of \$3,000 to the Schenectady County Community Business Center for operations funding and to support the development, growth, and success of new and existing businesses in Schenectady County. As of December 31, 2004, the Authority had distributed \$110,000 in connection with this grant and \$248 of related expenses.

Schenectady Family Health Services

The Authority has approved expenditures of \$30,000 in connection with this project. As of December 31, 2004, the Authority had incurred \$6,758 in related expenses in connection with this project.

Schenectady Local Development Corp.

The Authority has approved a grant of \$250,000 to the Schenectady Local Development Corporation. As of December 31, 2004, the Authority has distributed \$150,000 in connection with this grant.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

Scotia Streetscape and Parking

The Authority has approved a grant to the Village of Scotia in the amount of \$266,800 for redesigning, reconstruction, and improvements of Mohawk Avenue near the Western Gateway Bridge and expansion of municipal parking on Mohawk Avenue. As of December 31, 2004, the Authority has distributed \$266,800 in connection with this grant.

Send Word Now

The Authority has approved a grant of \$200,000 and related expenses of \$10,000 in connection with this project. As of December 31, 2004, the Authority had distributed \$43,901 in connection with this grant.

State Streetscape Phase II

The Authority has approved a grant to the City of Schenectady in the amount of \$2,812,544 for redesigning, reconstruction, and improvements of State Street between Erie Boulevard and Lafayette Street. As of December 31, 2004, the Authority had distributed \$2,484,435 in connection with this grant.

Time-Warner Cable

The Authority has approved three grants totaling \$2,900,000 for the Time-Warner Cable project. The first grant would be given to Time-Warner Cable in the amount of \$1,900,200, the second grant would be given to Highbridge Associates, LLC in the amount of \$429,800, and the third grant would be given to the Schenectady County IDA in the amount of \$570,000. As of December 31, 2004, the Authority has distributed \$2,830,000 in connection with these grants.

Upper Union Street Revitalization

The Authority has approved a \$356,500 grant to the City of Schenectady for improvements to the retail area of Upper Union Street. As of December 31, 2004, the Authority had distributed \$236,471 in connection with this grant.

Upper Union Street Façade Program

The Authority has approved a grant of \$488,000 and related expenses of \$3,000 in connection with this project. As of December 31, 2004, the Authority had distributed grants of \$16,019 and had incurred \$6,806 in related expenses in connection with this project.

Utech Products

The Authority has approved a grant of \$60,000 and \$245,000 for related expenses in connection with this project. As of December 31, 2004, the Authority had incurred expenditures of \$161,417 in connection with this project.

Vale Village Revitalization

The Authority has approved a \$1,393,500 grant for improvements to the Vale neighborhood in the City of Schenectady. As of December 31, 2004, the Authority had distributed \$33,682 in connection with this grant.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

Van Dyck Restaurant

The Authority has approved expenditures of \$15,000 in connection with this project. As of December 31, 2004, the Authority had incurred \$7,461 in expenditures in connection with this project.

The Authority also made a \$100,000 payment during 2004 for a ten-year lease of parking space at 301 Union Street. The payment is included in prepaid expense in these financial statements and will be amortized over ten years on a straight-line basis. Accumulated amortization expense at December 31, 2004, was \$2,500.

Villa Italia

The Authority has approved a grant of \$125,000 and \$25,000 for related expenses in connection with this project. As of December 31, 2004, the Authority had made no distributions or expenditures in connection with this project.

Zone 5 Regional Law Enforcement Training Center

The Authority has approved expenditures of \$5,000 in connection with this project. As of December 31, 2004, the Authority had incurred \$2,955 in related expenses in connection with this project.

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

	<u>2004</u>	<u>2003</u>
Broadway Parking Garage	\$ 10,747	\$ 554,048
Canal Square Corridor Property Acquisition	1,859,189	1,525,624
Canal Square Corridor Streetscape	19,804	-
Canal Square Demolition	-	116,092
Canal Square Temporary Parking	32,275	78,486
Cornell's Restaurant	820	239,675
Diamond Cinema	61,388	8,265
Downtown Schenectady Façade Program	188,000	72,025
Downtown Parking	5,378,747	-
Downtown Special Assessment District II	-	25,000
Downtown Special Assessment District III	-	250,000
Downtown Special Assessment District IV	121,270	-
Duane Avenue Parking and Transportation	127,360	543,204
Highbridge Broadway	75,365	-
Hillside Commerce Park	51,380	98,850
Integra Development	230	-
Little Italy	501,558	107,984
MVP Parking Garage	1,194,113	935,000
Parking Program	141,019	-
Princetown Water District	780	-
Proctor's Theatre	1,510,889	-
Schenectady County Community Business Center	60,248	50,000
Schenectady Family Health Services	6,758	-

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE F - PROJECT GRANTS AND COMMITMENTS - Continued

	<u>2004</u>	<u>2003</u>
Schenectady Internet Mapping System	-	50,000
Schenectady Local Development Corporation	-	34,000
SLDC State Street Relief Loan Fund	150,285	-
Scotia Streetscape and Parking	266,800	-
Send Word Now	43,901	-
State Streetscape II	1,037,407	1,447,028
Time Warner Cable	-	500,000
Transportation Museum	-	14,336
Upper Union Street Façade	22,825	-
Upper Union Street Revitalization	28,320	208,421
Utech Products	161,417	-
Vale Village Revitalization	16,886	16,796
Van Dyck Restaurant	9,961	-
Zone 5 Regional Law Enforcement Training Center	2,955	-
Professional services and predevelopment costs (a)	<u>452,643</u>	<u>941,681</u>
	13,535,340	7,816,515
Project grant revenues	<u>(295,375)</u>	<u>(793,915)</u>
	<u>\$13,239,965</u>	<u>\$ 7,022,600</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.

From inception through December 31, 2004, the Authority has approved project grants, expenditures, and loans totaling \$73,248,597, of which \$44,969,551 has been distributed.

NOTE G - CANAL SQUARE

During June 2001, the City of Schenectady Industrial Development Agency (COSIDA) transferred title to various properties in the City of Schenectady known as "Canal Square." As part of the transfer, COSIDA indemnified the Authority from any and all claims, suits, charges, liens, and/or actions brought by existing tenants of the properties plus any outstanding utility billings. On the date of the property transfer, the Authority assumed landlord responsibilities for the leased properties. The existing leases are on a month-to-month basis. Rental income and related operating costs for the years ended December 31, were as follows:

	<u>2004</u>	<u>2003</u>
Rental income	<u>\$ 10,377</u>	<u>\$ 66,857</u>
Operating expenses	<u>\$ 206,687</u>	<u>\$133,392</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE H - NEW YORK STATE EMPLOYEES' RETIREMENT SYSTEM

1. *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.

2. *Funding Policy*

The NYSERS is noncontributory except for employees who joined the NYSERS after July 27, 1976, who contribute 3% of their salary for the first ten years of membership. Under the authority of the NYSRSSL, the Comptroller annually certifies the rates expressed used in computing the employers' contributions. Contributions to the NYSERS totaled \$43,548 and \$16,809 for the years ended December 31, 2004 and 2003, respectively.

NOTE I - COMMITMENTS AND CONTINGENCIES

1. *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 aggregate principal amount of such outstanding obligations shall not exceed \$50,000,000. The Authority is also primarily liable for a bond issue through its lease agreement with the IDA (Note F). At December 31, 2004 and 2003, there was \$29,145,000 and \$16,435,000, respectively, of outstanding obligations, including its outstanding General Resolution Bonds described in Note E.

2. *Letter-of-Credit*

The Authority has an \$8,007,042 letter-of-credit with Bank of America to demonstrate financial responsibility and secure the IDA bonds (Note F). Fees for the letter-of-credit are included in the Authority's lease payments to the IDA (Note F). The letter-of-credit is for a period of five years and renewable for an additional five years at the discretion of the bank. The Authority is required to meet certain covenants in order to be in compliance with the terms of the letter-of-credit.

3. *Leases*

The Authority leases its office space. Terms of the lease include monthly payments of \$2,855 for a one-year term expiring on February 28, 2005. During February 2005, the Authority renewed this lease for one additional year expiring February 28, 2006, at approximately the same monthly payment.

The Authority also leases an automobile for use by its Executive Director. Terms of the lease include monthly payments of \$363 and expires January 2006.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2004 and 2003

NOTE I - COMMITMENTS AND CONTINGENCIES - Continued

3. *Leases - Continued*

Total lease expense for December 31, 2004 and 2003, was \$38,616 and \$36,714, respectively.

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

For the year ending December 31, 2005	\$38,856
2006	<u>6,113</u>
	<u>\$44,969</u>

4. *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. Based on the Executive Director's current salary, the contingent liability upon termination would be approximately \$59,000.

5. *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 fiscal period ended December 31, 2004, the Authority recognized sales tax revenues of \$6,704,961. As of December 31, 2004, the Authority has outstanding project, loan, and project lease commitments and related bond interest payments totaling \$21,907,996, which the Authority has authorized to be distributed in the next fiscal year. The Authority also has current liabilities of \$1,363,013 at December 31, 2004, payable during 2005.

In addition, during March 2003, the Authority approved a Five-Year Capital Plan pursuant to Section 2655(c) of its enabling statute. The Plan anticipates project expenditures of approximately \$50,000,000 over a 5-year period beginning in 2003, some of which may be distributed in the next fiscal year. The Authority has not formally established a reserve for such expenditures as of December 31, 2004.

As of December 31, 2004, the Authority was not obligated to return revenues to the County.

NOTE J - NET ASSETS

The Authority has appropriated sufficient funds for operations and contingencies in the unlikely event that sales tax revenues do not materialize or that the statute providing the Authority with its sales tax revenues is amended in a manner restrictive to its operations. The Authority has appropriated an amount equivalent to 100% of its lease rental commitments and contingent liabilities. The Authority has appropriated an amount equivalent to 5% of the 2004 sales tax revenues for operational expenses. The balance of net assets that is not restricted or invested in capital assets has been appropriated for project commitments, construction, and development.

SCENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE J - NET ASSETS - Continued

Net assets at December 31, 2004, are classified as follows:

<i>Invested in capital assets</i>	
Capital assets, net	\$ 50,972
<i>Restricted</i>	
Investment reserves related to 2004A bond issue	1,312,758
<i>Unrestricted</i>	
Operations, project commitments and contingencies	<u>3,318,692</u>
	<u>\$4,682,422</u>