

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

FINANCIAL REPORT

December 31, 2006 and 2005

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Schenectady Metroplex Development Authority

We have audited the accompanying statements of net assets of Schenectady Metroplex Development Authority (a New York public benefit corporation) as of December 31, 2006 and 2005, 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, 2006 and 2005, 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.

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
June 25, 2007

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, 2006, 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 10) 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, 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, 2006. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The year 2006 marked another outstanding year for the Authority. Its redevelopment investments and activities within its statutory service area continued to grow, and management believes the Authority's financial position remains very strong. Following are some of the highlights of 2006 results:

- Total operating revenues increased by a modest 4%, consistent with long-term trends and management expectations. Net operating revenues were \$6.4 million, compared to \$6.2 million in 2005.
- Total operating expenses increased by 3.7%. Staff salary adjustments contributed primarily to the increase.
- The Authority closed its fourth taxable bond issue in November 2006, issuing \$11,440,000 in new fixed-rate bonds for the benefit of new development projects, increasing total bond debt to \$47,070,000 and increasing interest expense commensurately.
- Total assets increased by 39.7% to \$36 million. The bulk of this increase was due to increases in project-related loan and grant receivables, with the remainder representing growth in cash and cash equivalents.
- Project grants and expenditures (not including project-related loans) totaled \$4.9 million.
- The Authority's accumulated deficit was \$13.4 million at December 31, 2006, primarily due to accumulated project expenditures since inception.

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 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.

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, 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 the 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 Statements of Net Assets

	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current assets	\$ 17,040,340	\$ 12,714,309	\$ 4,326,031	34.0%
Capital assets, net	42,608	54,407	(11,799)	-21.7%
Other assets	<u>19,009,485</u>	<u>13,065,024</u>	<u>5,944,461</u>	45.5%
	<u>\$ 36,092,433</u>	<u>\$ 25,833,740</u>	<u>\$ 10,258,693</u>	39.7%
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 2,902,007	\$ 2,558,985	\$ 343,022	13.4%
Long-term debt	46,554,113	35,767,283	10,786,830	30.2%
Net assets invested in capital assets, net of related debt	42,608	54,407	(11,799)	-21.7%
Net assets, restricted	3,236,743	2,059,032	1,177,711	57.2%
Net assets, unrestricted	<u>(16,643,038)</u>	<u>(14,605,967)</u>	<u>(2,037,071)</u>	13.9%
	<u>\$ 36,092,433</u>	<u>\$ 25,833,740</u>	<u>\$ 10,258,693</u>	39.7%

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

	<u>2006</u>	<u>2005</u>	<u>\$ Change</u>	<u>% Change</u>
Sales tax revenue	\$ 7,144,435	\$ 6,900,442	\$ 243,993	3.5%
Other operating revenues	<u>78,208</u>	<u>42,545</u>	<u>35,663</u>	83.8%
Total operating revenues	<u>7,222,643</u>	<u>6,942,987</u>	<u>279,656</u>	4.0%
Depreciation and amortization	19,269	18,705	564	3.0%
Other operating expenses	<u>764,976</u>	<u>737,195</u>	<u>27,781</u>	3.8%
Total operating expenses	<u>784,245</u>	<u>755,900</u>	<u>28,345</u>	3.7%
Net operating revenues	6,438,398	6,187,087	251,311	4.1%
Other financing sources (uses)	<u>(1,228,792)</u>	<u>(609,579)</u>	<u>(619,213)</u>	101.6%
Net revenues	5,209,606	5,577,508	(367,902)	-6.6%
NET ASSETS, beginning of year	(12,492,528)	4,682,422	(17,174,950)	-366.8%
Excess sales tax revenue due to Schenectady County	(1,193,076)	-	(1,193,076)	
Project grants, net of project grant revenues	<u>(4,887,689)</u>	<u>(22,752,458)</u>	<u>17,864,769</u>	-78.5%
NET ASSETS, end of year	<u>\$(13,363,687)</u>	<u>\$(12,492,528)</u>	<u>\$ (871,159)</u>	7.0%

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2006, the pace of the Authority's redevelopment efforts in the downtown core of Schenectady continued, with many of its prior commitments nearing completion. The proceeds of the 2006 Bonds will be used to fund \$11 million in costs of various new redevelopment projects in the City's downtown core.

FINANCIAL CONDITION

The overall financial position of the Authority was strong at year-end, with net operating revenue increasing slightly over that of the prior year. Total expenses in 2006 increased only slightly by \$28,345 from the prior year.

The Authority paid \$1,275,000 in bond principal during 2006.

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 coverage ratio covenant in the Trust Indenture that governs operations and financial requirements.

RESULTS OF OPERATIONS

Revenue

Total revenue for 2006 was \$7,222,643, compared to \$6,942,987 in 2005.

Expense

Total operating expenses for the year 2006 were \$784,245, compared to \$755,900 in 2005. Cash or equivalents on hand for debt service payments were approximately \$13.5 million.

LONG-TERM OBLIGATIONS

As of December 31, 2006, the Authority had \$47,070,000 outstanding related to four separate general resolution bond issues in 2001, 2004, 2005, and 2006. The bonds mature in 2021, 2024, 2028, and 2028, respectively. Principal payments related to these bonds will total \$1,770,000 during 2007.

More detailed information about the Authority's long-term obligations is presented in the notes to the financial statements on pages 20 - 22.

OTHER 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.

Board membership was unchanged throughout 2006.

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, confirmed by the Schenectady County Legislature, is as follows:

<u>Name</u>	<u>Board Office</u>	<u>Term Expiration</u>
Ray Gillen	Chair	December 31, 2008
Bradley G. Lewis	Vice Chair	December 31, 2008
Arthur C. Brassard	Secretary	December 31, 2006*
Ken Bulko	Treasurer	December 31, 2006*
Neil M. Golub		December 31, 2008
Janet Hutchison		December 31, 2008
Sharon A. Jordan		December 31, 2006*
Robert J. Mantello		December 31, 2008
Gary McCarthy		December 31, 2006*
David Sterman		December 31, 2006*
Robert L. Wall		December 31, 2006*

*Directors are continuing to serve in their capacities pursuant to Section 2653(1) of the Authority's enabling statute pending confirmation by the County Legislature of reappointment or replacement.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

STATEMENTS OF NET ASSETS

December 31,

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 10,774,843	\$ 8,463,656
Cash, restricted	993,346	571,128
Accounts receivable	3,397,043	2,936,514
Current installments of loans receivable	1,743,336	604,907
Interest receivable	22,395	27,721
Prepaid expenses, current portion	44,183	58,972
Bond issuance costs, current portion	<u>65,194</u>	<u>51,411</u>
Total current assets	<u>17,040,340</u>	<u>12,714,309</u>
CAPITAL ASSETS, net	<u>42,608</u>	<u>54,407</u>
OTHER ASSETS		
Loans receivable, less current installments, net	14,715,528	9,655,071
Note receivable, net	300,000	300,000
Investment reserves, restricted	2,719,611	2,059,032
Bond issuance costs, net of amortization	1,206,846	973,421
Prepaid expenses	<u>67,500</u>	<u>77,500</u>
	<u>19,009,485</u>	<u>13,065,024</u>
	<u>\$ 36,092,433</u>	<u>\$ 25,833,740</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current installments of bonds payable	\$ 1,770,000	\$ 1,275,000
Accounts payable and accrued expenses	155,427	327,123
Accrued interest	436,621	378,802
Due to the County of Schenectady, current portion	56,813	-
Premium on bonds, net of amortization, current portion	6,932	6,932
Escrow payable	<u>476,214</u>	<u>571,128</u>
Total current liabilities	<u>2,902,007</u>	<u>2,558,985</u>
LONG-TERM DEBT		
Bonds payable, less current installments	45,300,000	35,630,000
Deferred revenue	-	12,500
Due to the County of Schenectady, less current portion	1,136,263	-
Premium on bonds, net of amortization, less current portion	<u>117,850</u>	<u>124,783</u>
	<u>46,554,113</u>	<u>35,767,283</u>
NET ASSETS		
Invested in capital assets, net of related debt	42,608	54,407
Restricted	3,236,743	2,059,032
Unrestricted	<u>(16,643,038)</u>	<u>(14,605,967)</u>
	<u>(13,363,687)</u>	<u>(12,492,528)</u>
	<u>\$ 36,092,433</u>	<u>\$ 25,833,740</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>2006</u>	<u>2005</u>
OPERATING REVENUES		
Sales tax revenues	\$ 7,144,435	\$ 6,900,442
Other income	60,588	42,545
Rent	<u>17,620</u>	<u>-</u>
	<u>7,222,643</u>	<u>6,942,987</u>
OPERATING EXPENSES		
Payroll	366,304	336,376
Payroll taxes	32,551	29,292
Pension plan	31,112	32,504
Health insurance	42,010	37,506
Other employee benefits	4,410	2,690
Accounting	40,550	37,630
Advertising	20,580	23,586
Automobile	7,542	8,474
Consulting	26,647	41,147
Depreciation and amortization	19,269	18,705
Dues and subscriptions	4,201	5,067
Educational training	1,381	1,314
Hosting and travel	7,662	5,668
Insurance	12,226	12,284
Legal	57,529	45,626
Office supplies	12,068	19,825
Postage	5,584	5,049
Rent	36,157	35,112
Repairs and maintenance	18,631	16,456
Resource data	22,232	24,336
Telephone	<u>15,599</u>	<u>17,253</u>
	<u>784,245</u>	<u>755,900</u>
Net operating revenues	<u>6,438,398</u>	<u>6,187,087</u>
OTHER FINANCING SOURCES (USES)		
Investment earnings	779,126	620,453
Interest expense	(1,938,384)	(1,220,210)
Amortization of bond issuance costs	(51,412)	(32,771)
Debt service fees	(25,054)	-
Miscellaneous revenue	<u>6,932</u>	<u>22,949</u>
	<u>(1,228,792)</u>	<u>(609,579)</u>
Increase in net assets	5,209,606	5,577,508
NET ASSETS, beginning of year	(12,492,528)	4,682,422
Excess sales tax revenue due to County of Schenectady	(1,193,076)	-
Project grants and expenditures, net of project grant revenues	<u>(4,887,689)</u>	<u>(22,752,458)</u>
NET ASSETS, end of year	<u>\$ (13,363,687)</u>	<u>\$ (12,492,528)</u>

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,

	<u>2006</u>	<u>2005</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from sales tax revenues	\$ 7,056,262	\$ 6,760,335
Cash received from other sources	60,588	42,545
Cash received from rent	17,620	-
Cash paid to suppliers and other vendors	(292,999)	(301,517)
Cash paid for salaries and employee benefits	(471,977)	(435,678)
	<u>6,369,494</u>	<u>6,065,685</u>
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond issuance	11,440,000	16,405,000
Proceeds from bond anticipation note issuance	9,000,000	-
Debt service fees	(25,054)	-
Bond issuance costs	(298,621)	(568,531)
Repayment of bond principal	(1,275,000)	(770,000)
Repayment of bond anticipation note principal	(9,000,000)	-
Interest paid	(1,880,565)	(1,022,268)
	<u>7,960,760</u>	<u>14,044,201</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of office furniture and equipment	<u>(7,470)</u>	<u>(22,140)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Change in cash, restricted	(517,132)	-
Proceeds from sale of investments, unrestricted	-	14,690
Purchase of investment reserves, restricted, net	(660,579)	(746,274)
Issuance of loans receivable	(6,977,134)	(4,761,048)
Repayment of loans receivable	578,248	704,243
Investment earnings received	784,452	607,763
Miscellaneous revenue	-	16,017
Project grants and expenditures paid, net of project grant revenues received	(5,219,452)	(22,735,676)
	<u>(12,011,597)</u>	<u>(26,900,285)</u>
Net increase (decrease) in cash and cash equivalents	2,311,187	(6,812,539)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>8,463,656</u>	<u>15,276,195</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$ 10,774,843</u>	<u>\$ 8,463,656</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating revenues	\$ 6,438,398	\$ 6,187,087
Adjustments to reconcile net operating revenues to net cash provided (used) by operating activities		
Depreciation and amortization	19,269	18,705
Increase in accounts receivable	(88,173)	(140,107)
	<u>\$ 6,369,494</u>	<u>\$ 6,065,685</u>

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

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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 New York State and 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.

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 31, 2006 and 2005. 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 net collections received from the one-half of one percent to the Authority.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

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 \$471,175 and \$361,988 for the years ended December 31, 2006 and 2005, respectively.

5. *Cash, Restricted*

At December 31, 2006, restricted cash consisted of escrow deposits held for the Downtown Schenectady Façade Program and the Upper Union Street Façade Program (Note F).

Restricted cash at December 31, 2005, consisted of deposits held in escrow related to the Downtown Schenectady Façade Program (Note F).

6. *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, 2006 and 2005.

Loans and notes receivable are carried at original loan amount less payments of principal received. Accrued interest income is reported for loan interest earned not received at year-end. As of December 31, 2006, a reserve of \$400,000 has been established to offset two separate loans/notes receivable. In one instance, if the recipient fulfills the terms of the agreement, the loan will be forgiven. The note receivable anticipates the receipt of grants from the City of Schenectady IDA and the County of Schenectady IDA which would be offset against the note receivable. In the event the grants are not received, a portion of the note equal to the grants would be forgiven.

Management considers accounts and loans receivable to be fully collectible, other than those noted above. 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.

7. *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.

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. Capital assets are summarized as follows:

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

7. *Capital Assets* - Continued

	January 1, <u>2006</u>	<u>Additions</u>	December 31, <u>2006</u>
Office furniture and equipment	\$ 146,198	\$ 7,470	\$ 153,668
Leasehold improvements	<u>8,509</u>	<u>-</u>	<u>8,509</u>
	154,707	7,470	162,177
Accumulated depreciation	<u>(100,300)</u>	<u>(19,269)</u>	<u>(119,569)</u>
	<u>\$ 54,407</u>	<u>\$ (11,799)</u>	<u>\$ 42,608</u>
	January 1, <u>2005</u>	<u>Additions</u>	December 31, <u>2005</u>
Office furniture and equipment	\$ 124,057	\$ 22,141	\$ 146,198
Leasehold improvements	<u>8,509</u>	<u>-</u>	<u>8,509</u>
	132,566	22,141	154,707
Accumulated depreciation	<u>(81,594)</u>	<u>(18,706)</u>	<u>(100,300)</u>
	<u>\$ 50,972</u>	<u>\$ 3,435</u>	<u>\$ 54,407</u>

8. *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 from New York State and the County for the operation of the Authority for the forthcoming fiscal year.

9. *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.

10. *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, 2006, the LLC leases two surface parking lots from the City of Schenectady. The parking lots are in operation, but generate no revenue for the LLC, and are in need of repair and renovation. The Authority's Board has approved funding for the renovation of these parking lots (Note H). There were no other transactions between the Authority and the LLC during 2006 or 2005.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

11. Accounting Standard Not Yet Implemented

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes accounting and financial reporting standards for other postemployment benefits (OPEB).

This standard establishes the measurement, recognition, and display of OPEB expenses and related liabilities and/or assets, as well as certain other disclosures. The new standard will allow the reporting entity to (a) recognize the cost of benefits in periods when the related services are received by the employer, (b) provide information about the actuarial accrued liabilities for promised benefits associated with past services and whether and to what extent those benefits have been funded, and (c) provide information useful in assessing potential demands on the employer's future cash flows. This statement is effective for the Authority as of January 1, 2008. The effect of fully implementing this standard on the Authority's financial statements has not been determined as of December 31, 2006, however, given the number of employees currently employed by the Authority, management believes that the effects of GASB 45 on the Authority's financial statements will be insignificant.

12. Reclassifications

Certain 2005 accounts have been reclassified to conform with 2006 presentation.

NOTE B - LOANS RECEIVABLE

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

	December 31,	
	<u>2006</u>	<u>2005</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	\$ 457,000
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)	1,010,966	1,166,966
Opus Trails, due in monthly installments of \$2,900, including interest at 6%, paid off during 2006, unsecured, guaranteed by the principals of the company	-	67,990
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)	743,930	761,313

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE B - LOANS RECEIVABLE - Continued

	<u>December 31,</u> <u>2006</u>	<u>2005</u>
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)	450,247	465,009
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)	223,941	223,941
510 Union Street, repayable over a 15-year period, due in monthly installments of principal of \$1,944, matures May 2018; interest free (f)	266,389	289,722
Synthesis Architects, repayable over a 15-year period, due in monthly installments of principal of \$972, matures October 2018; interest free (g)	140,972	152,639
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)	28,925	55,120
Quality Roofing Supply, repayable over a 15-year period, due in monthly installments of principal of \$1,733, matures November 2019; interest free (i)	270,400	289,467
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)	800,000	676,160
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)	156,044	164,792
Integra Development, repayable over a 15-year period, due in monthly installments of principal of \$580, matures December 2019; interest free (l)	86,930	93,884
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)	628,542	661,042

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	<u>2006</u>	<u>2005</u>
Van Dyck Restaurant, due in full during September 2006, with interest rates ranging from 0% to 6% (n)	274,989	274,989
Zone 5 Regional Law Enforcement Training Center, repayable over a 15-year period (18-year amortization), due in monthly installments of principal of \$4,306, beginning September 2007, matures August 2022, with a balloon payment for the remaining balance; interest free (o)	775,000	775,000
Bighouse Schenectady, repayable over a 15-year period (25-year amortization) due in monthly installments of \$3,667, matures 15 years from completion of the project, with a balloon payment for the remaining balance; interest free (p)	1,020,000	191,349
Broadway Commerce Park, repayable over a 20-year period, due in monthly installments of \$4,500, matures November 2020; interest free (q)	1,017,000	1,075,500
Clinton's Ditch, repayable over a 15-year period, due in monthly installments of \$278, matures August 2020; interest free (r)	45,277	48,611
David Louis Floor Covering, repayable over a 15-year period, due in monthly installments of \$1,222, matures November 2019; interest free (s)	191,889	206,556
Logical Net, repayable over a 10-year period, due in monthly installments of \$1,448, including interest at 3%, matures December 2011 (t)	79,635	93,179
Schenectady Family Health Services, repayable over a 20-year period, due in monthly installments of \$6,250, matures February 2026, interest free (u)	1,437,500	1,500,000
Tailwind Associates, repayable over a 10-year period, due in monthly installments of \$483, including interest at 3%, matures December 2015 (v)	45,225	50,000
3N2, LLC repayable over a 10-year period, due in monthly installments of \$1,207, including interest at 3%, matures July 2015 (w)	112,831	121,416
Villa Italia, repayable over a 20-year period, due in monthly installments of \$1,667, matures November 2025; interest free (x)	376,667	398,333

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	<u>2006</u>	<u>2005</u>
Backstage Pub, repayable over a 10-year period, due in monthly installments of \$483 including interest at 3%, matures January 2017 (y)	50,000	-
426 State Street Assoc., LLC, repayable over a 15-year period, due in monthly installments of \$9,535, including interest at 4% beginning in the sixth year, matures 15 years following the initial disbursement, however payments are suspended for the first 30 months of the project, with a balloon payment for the remaining balance; interest free for the first five years (z)	91,720	-
Old Dorp, LLC, repayable over a 10-year period, interest free. Within 10 days of each closing on the sale of all or a portion of the property an amount equal to the purchase price for the property, less reasonable expenses, which are capped at \$50,000, and will continue until the loan is paid in full. In the event the properties are leased the net lease revenue will be utilized to reduce the loan. Final maturity will be 10 years from the earlier of the date which the Empire State Development Corporation grant is available for disbursement or six months from the full disbursement of the loan. The Authority has applied for \$450,000 of grants on behalf of the company which will be used to reduce the principal balance. In the event two of the grants are not received, amounting to \$200,000, principal equal to the grants will be forgiven. (z)	767,251	-
Rotterdam Ventures, Inc., repayable over a 5-year period, due in monthly installments of \$767, including interest at 5%, matures March 2011.	34,547	-
Bow Tie Partners, LLC, repayable over a 20-year period, due in monthly installments of \$15,208, matures 20-years from the completion of the project; interest free (aa)	3,075,047	-
Schenectady Hotel, LLC, repayable over a 19-year period, due in monthly installments of \$8,772, matures 19-years from the completion of the project; interest free (bb)	2,000,000	-
	<u>16,658,864</u>	<u>10,259,978</u>
Less: Reserve	200,000	-
Current installments	<u>1,743,336</u>	<u>604,907</u>
Loans, receivable, less current installments	<u>\$ 14,715,528</u>	<u>\$ 9,655,071</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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.
- (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.
- (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.
- (p) Secured by a mortgage, subordinate to the primary lender.
- (q) Secured by a second mortgage on the property and guaranteed by the members of the company.
- (r) Secured by a mortgage, subordinate to the primary lender, an assignment of rents, and guarantee of the operating entity.
- (s) Secured by a second mortgage on the property.
- (t) Secured by a mortgage on the property, all business assets, assignment of leases, and personal guarantees by the principals of the company.
- (u) Secured by a mortgage on the property, assignment of leases, all tangible business assets, and a guarantee by the Health Resources and Services Administration, an agency within the United States Department of Health and Human Services.
- (v) Secured by all business assets, landlord waiver of liens, and personal guarantees by the principals of the company.
- (w) Secured by all business assets and personal guarantees by the principals of the company.
- (x) Secured by a mortgage on the property, a lien on certain machinery and equipment, and personal guarantees by the members of the company.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE B - LOANS RECEIVABLE - Continued

- (y) Secured by a first mortgage on the property and personal guarantees of the owners.
- (z) Secured by a first mortgage on the property.
- (aa) Secured by a second mortgage on the property and the assignment of rents.
- (bb) Secured by a second mortgage on the property and a second lien position on the fixed assets of the entity.

In addition, the Authority has approved loans to various entities. These loans were not yet advanced at December 31, 2006, and are as follows:

<u>Borrower</u>	<u>Approved Loan</u>
Big House Schenectady	\$ 80,000
426 State Street Assoc., LLC	1,208,280
Bow Tie Partners, LLC	574,953
Old Dorp, LLC	<u>32,749</u>
	<u>\$ 1,895,982</u>

Interest earnings on loans receivable were \$143,018 and \$155,197 for the years ended December 31, 2006 and 2005, respectively.

NOTE C - NOTES 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.

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. As of December 31, 2006, a reserve has been established against this note receivable in anticipation of the note being forgiven.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

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, a \$14,000,000 General Resolution Bond, dated September 2004, a \$16,405,000 General Resolution Bond dated, September 2005, and a \$11,440,000 General Resolution Bond, dated November 2006 (Note E). These costs, totaling \$1,401,011 and \$1,100,289 as of December 31, 2006 and 2005, respectively, are reported as Bond issuance costs and are amortized over the life of the bonds (20 to 22 years) on a straight-line basis, beginning with the issuance of each bond. Accumulated amortization at December 31, 2006 and 2005, totaled \$128,971 and \$75,458, respectively. Amortization expense for each of the five years subsequent to December 31, 2006, will be \$65,196.

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. 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 fully mature 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. 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 fully mature 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.

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 bore interest at a weekly rate determined by First Albany Capital, subject to a maximum rate of 12% through November 2006, when it was converted to a fixed rate ranging from 5.15% to 6.62%. The bonds will include annual principal payments ranging from \$125,000 to \$360,000 and mature August 1, 2028.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE E - BONDS PAYABLE, NET - Continued

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 will include annual principal payments ranging from \$295,000 to \$850,000 and mature August 1, 2028.

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 bond transactions is as follows:

	<u>2006</u>	<u>2005</u>
Bonds payable, beginning of year	\$ 36,905,000	\$ 21,270,000
Bonds issued	11,440,000	16,405,000
Principal payments	<u>(1,275,000)</u>	<u>(770,000)</u>
 Bonds payable, end of year	 <u>\$ 47,070,000</u>	 <u>\$ 36,905,000</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, 2007	\$ 1,770,000	\$ 2,067,817
2008	1,580,000	2,254,680
2009	1,655,000	2,183,729
2010	1,730,000	2,109,304
2011	1,810,000	2,030,394
For the years ending December 31, 2012 through 2016	10,380,000	8,799,426
2017 through 2021	13,155,000	6,024,569
2022 through 2026	11,060,000	2,737,847
2027 through 2028	<u>3,930,000</u>	<u>326,758</u>
	<u>\$ 47,070,000</u>	<u>\$ 28,534,524</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE E - BONDS PAYABLE, NET - Continued

Interest expense for the years ended December 31, 2006 and 2005, was \$1,717,318 and \$1,220,210, respectively. Interest paid during the years ended December 31, 2006 and 2005, totaled \$1,659,500 and \$1,022,267, 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. Government securities and cash, are held in trust by M&T Investment Group and are reported at fair value at December 31, as follows:

	<u>2006</u>	<u>2005</u>
<i>Investment reserves, restricted</i>		
Revenue Fund	\$ 842	\$ 100
Debt Service Reserve Fund	2,026,743	1,513,704
Debt Service Fund	674,236	539,437
Bond Issuance Cost Fund	<u>17,790</u>	<u>5,791</u>
	<u>\$ 2,719,611</u>	<u>\$ 2,059,032</u>

NOTE F - 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%. The total annual principal payment through 2027 is \$56,813.

NOTE G - BOND ANTICIPATION NOTES

In anticipation of the issuance of the 2006 bonds in May 2006 and July 2006, the Authority issued 2006A and 2006B bond anticipation notes (BANs) in the amounts of \$7,000,000 and \$2,000,000, respectively. Both BANs matured in November 2006 and were repaid with the issuance of the Authority's General Resolution Bonds, Series 2006A (Note E).

Interest expense incurred and paid on the BANs was \$221,066 for the year ended December 31, 2006.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS

A summary of the Authority's project grants and commitments as of and for the year ended December 31, 2006, is as follows:

Accurate Waste

The Authority has approved a grant of \$219,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$109,094 for this project.

Alco Redevelopment

The Authority has approved expenditures of \$180,000 for this project. As of December 31, 2006, the Authority had not incurred any expenditures in connection with this project.

Backstage Pub

The Authority has approved a loan of \$50,000 and related expenses of \$5,000 for this project. As of December 31, 2006, the Authority had made loans of \$50,000 and had not incurred any expenses in connection with this project.

Big House Schenectady

The Authority has approved grants of \$350,000, a loan of \$1,100,000, and related expenses of \$100,000 for this project. As of December 31, 2006, the Authority had distributed the grant of \$350,000, made loans of \$1,020,000, and had incurred expenses of \$48,191 in connection with this project.

Broadway Commerce Park

The Authority has approved a grant of \$400,000, a loan of \$1,080,000, and related expenses of \$520 for this project. As of December 31, 2006, the Authority had distributed the grant of \$400,000, made loans of \$1,080,000, and had incurred expenses of \$520 in connection with this project.

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, 2006, the Authority had incurred expenditures of \$3,674,870 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, 2006, the Authority had incurred expenditures of \$155,382 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

Challenger Learning Center

The Authority has approved grants of \$525,000 and related expenses of \$10,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$25,000 and had incurred expenses of \$1,163 in connection with this project.

Clinton's Ditch

The Authority has approved a loan of \$50,000 and related expenses of \$750 for this project. As of December 31, 2006, the Authority had made loans of \$50,000 and had incurred expenses of \$750 in connection with this project.

Close-Witbeck Building Renovation

The Authority had approved grants of \$550,000, a loan of \$1,100,000, and related expenses of \$50,000 for this project. As of December 31, 2006, the Authority had made loans of \$91,720 and had incurred expenses of \$48,303 in connection with this project.

College Park Environmental Investigation

The Authority has approved a grant of \$450,000 for this project. As of December 31, 2006, the Authority had distributed the grant of \$450,00 in connection with this project.

Customer Retention Company Relocation

The Authority has approved a grant of \$60,000 for this project. As of December 31, 2006, the Authority had distributed the grant of \$60,000 in connection with this project.

Dorp Salvage Demolition

The Authority has approved a loan of \$800,000 and related expenses of \$25,000 for this project. As of December 31, 2006, the Authority had made loans of \$767,251 and had incurred expenses of \$20,967 in connection with this project.

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, 2006, the Authority had distributed \$395,206 of the grant and incurred expenditures of \$128 in connection with this project.

Downtown Schenectady Façade Program III

The Authority has approved a grant of \$525,000 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 \$5,000. As of December 31, 2006, the Authority had distributed \$184,570 of the grant and incurred expenditures of \$113 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

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, 2006, the Authority had incurred expenditures of \$6,500,000 in connection with this project.

Downtown Special Assessment District IV

The Authority has approved a grant of \$250,000 plus related expenditures of \$315 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, 2006, the Authority had distributed \$250,000 in connection with this grant and incurred expenditures of \$315 for this project.

Downtown Special Assessment District V

The Authority has approved a grant of \$150,000 for this project. As of December 31, 2006, the Authority had distributed \$150,000 of the grant in connection with this project.

Downtown Special Assessment District VI

The Authority has approved grants of \$165,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$49,770 in connection with this project.

Duane Avenue Parking and Transportation

The Authority has 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, 2006, the Authority had distributed \$809,500 in connection with these grants.

FedEx Freight Infrastructure

The Authority has approved a grant of \$40,625, a loan of \$40,625, and \$5,000 for related expenses in connection with this project. As of December 31, 2006, the Authority had distributed the grant of \$40,625 and had made loans of \$40,625 in connection with this project.

400 State Street Cinema

The Authority has approved a grant of \$750,000, a loan of \$3,650,000, and related expenses of \$100,000 for this project. As of December 31, 2006, the Authority had made loans of \$3,075,047 and had incurred expenses of \$84,757 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

Hampton Inn

The Authority has approved grants of \$1,120,000, a loan for \$2,000,000, and \$232,000 for related expenses of \$207,000 in connection with this project. As of December 31, 2006, the Authority had distributed grants of \$367,285, made loans of \$2,000,000 and had incurred expenditures of \$180,664 in connection with this project.

Highbridge Broadway

The Authority has approved a grant of \$75,000, a loan of \$175,000, and \$365 for related expenses in connection with this project. As of December 31, 2006, the Authority had made distributions of \$75,000 in grants, loans of \$175,000, and incurred \$365 in related expenses in connection with this project.

IMG Relocation

The Authority has approved expenditures of \$278 for this project. As of December 31, 2006, the Authority had incurred expenses of \$278 in connection with this project.

LaSartoria II

The Authority has approved loans of \$625,000 and related expenses of \$100,000 for this project. As of December 31, 2006, the Authority had incurred expenses of \$13,255 in connection with this project.

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, 2006, the Authority had distributed \$750,000 in connection with this grant.

Logical Net Relocation

The Authority has approved grants of \$231,000, a loan of \$150,000, and related expenses of \$10,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$230,874, made loans of \$93,179, and incurred expenses of \$11,495 in connection with this project.

MEM Financial Relocation

The Authority has approved grants of \$54,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$36,000 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

Mildred Elley

The Authority has approved grants of \$1,500,000, a loan of \$1,000,000 and related expenses of \$950,000 for this project. As of December 31, 2006, the Authority had incurred expenses of \$323,592 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 will be recorded as project revenues, and the operating expenses will be recorded as project expenditures.

Parking Remediation

The Authority has approved grants of \$350,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$173,220 in connection with this project.

Precision Industrial Maintenance Warehouse

The Authority has approved a grant of \$20,000, a loan of \$205,000, and related expenses of \$5,000 for this project. As of December 31, 2006, the Authority had distributed the grant of \$20,000 in connection with this project.

Princetown Water District

The Authority has approved a grant of \$284,750 to the Town of Princetown and expenditures of \$2,500 in connection with this project. As of December 31, 2006, the Authority had distributed grants of \$94,432 and had incurred expenditures of \$3,020 in connection with this project.

Proctor's Block Streetscape

The Authority has approved grants of \$1,920,000 and related expenses of \$50,000 for this project. As of December 31, 2006, the Authority had distributed grants of \$720,000 and had incurred expenses of \$19,960 in connection with this project.

Proctor's Theatre

The Authority has approved grants of \$10,025,000 to the Arts Center & Theatre of Schenectady and \$125,000 in related expenses in connection with this project. As of December 31, 2006, the Authority had distributed \$8,989,161 in connection with this grant and incurred expenditures of \$145,587.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

PVA Expansion Grant

The Authority has approved a grant of \$60,00 for this project. As of December 31, 2006, the Authority had incurred expenses of \$285 in connection with this project.

Railex Transportation

The Authority has approved grants of \$250,000 and related expenses of \$5,000 for this project. As of December 31, 2006, the Authority had distributed the grants of \$250,000 and had incurred expenses of \$248 in connection with this project.

Robinson Building Redevelopment

The Authority has approved grants of \$300,000 and related expenses of \$10,000 for this project. As of December 31, 2006, the Authority had not incurred any expenses in connection with this project.

Schenectady County Community Business Center II

The Authority has approved grants of \$60,000 and related expenses of \$248 for this project. As of December 31, 2006, the Authority had distributed the grant of \$60,000 and had incurred expenses of \$248 in connection with this project.

Schenectady County Community Business Center III

The Authority has approved grants of \$171,878 and related expenses of \$3,000 for this project. As of December 31, 2006, the Authority had distributed the grant of \$171,878 in connection with this project.

Schenectady County Community Business Center IV

The Authority has approved expenditures of \$78,000 for this project. As of December 31, 2006, the Authority had distributed the expenditures of \$78,000 in connection with this project.

Schenectady Family Health Services

The Authority has approved a loan of \$1,500,000 and expenditures of \$21,894 in connection with this project. As of December 31, 2006, the Authority had made the loan of \$1,500,000 and incurred \$21,894 in related expenses in connection with this project.

Send Word Now

The Authority has approved a grant of \$200,000, a loan of \$800,000, and related expenses of \$10,000 in connection with this project. As of December 31, 2006, the Authority had distributed grants of \$200,000, had made loans of \$800,000, and incurred expenses of \$10,000 in connection with this grant.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

State Street North Properties

The Authority has approved grants of \$850,000 and related expenses of \$50,000 for this project. As of December 31, 2006, the Authority had distributed the grants of \$816,145 and had incurred expenses of \$49,237 in connection with this project.

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, 2006, the Authority had distributed \$2,747,960 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, 2006, the Authority has distributed \$2,900,000 in connection with these grants.

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, 2006, the Authority had distributed grants of \$424,911 and had incurred \$27,106 in related expenses in connection with this project.

Utech Products

The Authority has approved a grant of \$60,000, a loan of \$680,000, and \$207,056 for related expenses in connection with this project. As of December 31, 2006, the Authority had distributed the grant of \$60,000, had made loans of \$680,000, and incurred expenditures of \$207,056 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, 2006, the Authority had distributed \$1,332,856 in connection with this grant.

Van Dyck Restaurant

The Authority has approved a loan of \$275,000 and expenditures of \$15,000 in connection with this project. As of December 31, 2006, the Authority had made the loan of \$275,111 and incurred \$14,992 in expenditures in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

Van Dyck Restaurant - Continued

The Authority also made a \$100,000 payment a for a ten-year lease of parking space at 301 Union Street. The payment is included in prepaid expenses in these financial statements and will be amortized over ten years on a straight-line basis. Accumulated amortization expense at December 31, 2006, was \$22,500.

Villa Italia

The Authority has approved a grant of \$125,000, a loan of \$400,000, and \$28,383 for related expenses in connection with this project. As of December 31, 2006, the Authority had distributed the grant of \$125,000, had made loans of \$400,000, and incurred expenses of \$28,383 in connection with this project.

Zone 5 Regional Law Enforcement Training Center

The Authority has approved a loan of \$1,175,000 and expenditures of \$3,653 in connection with this project. As of December 31, 2006, the Authority made loans of \$1,175,000 and had incurred \$3,653 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, and undistributed project commitments at December 31, 2006, were as follows:

	Project Grants <u>2006</u>	Unspent Project Commitments at December 31, <u>2006</u>	Project Grants <u>2005</u>
Accurate Waste Grant	\$ 109,094	\$ 109,096	\$ -
Alco Redevelopment	-	180,000	-
Arts Incubator Support Grant	-	-	25,075
Backstage Pub	-	5,000	-
Big House Schenectady	287,746	131,809	110,445
Broadway Commerce Park	250,000	-	150,520
Canal Square Corridor Property Acquisition	-	80,130	290,057
Canal Square Corridor Streetscape	822	130,168	134,756
Challenger Learning Center	398	508,837	25,765
Clinton's Ditch	-	-	750
Close-Witbeck Building Renovation	48,303	1,559,977	-
College Park Environmental Investigation Grant	450,000	-	-
Customer Retention Company Relocation	60,000	-	-

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

	Project Grants <u>2006</u>	Unspent Project Commitments at December 31, <u>2006</u>	Project Grants <u>2005</u>
David Louis Floor Covering	-	-	30,000
Dorp Salvage Demolition	20,967	36,782	-
Downtown Schenectady Façade Program	258,219	-	3,475
Downtown Schenectady Façade Program II	-	7,166	321,798
Downtown Schenectady Façade Program III	-	345,317	-
Downtown Parking	133,922	-	987,331
Downtown Special Assessment District IV	137,270	-	129,045
Downtown Special Assessment District V	-	-	62,500
Downtown Special Assessment District VI	-	115,230	-
Duane Avenue Parking and Transportation	31,309	196,500	105,004
FedEx Freight Infrastructure	40,625	5,000	-
400 State Street Cinema	84,757	1,340,196	-
409 State Street	-	-	25,000
411 State Street	-	-	324,488
Hampton Inn	497,928	779,051	50,021
Hillside Commerce Park	-	-	1,500
IMG, LLC	-	-	278
LaSartoria	13,255	711,745	-
Little Italy	99,589	-	40,587
Logical Net Relocation	102,430	55,452	139,939
MEM Financial Relocation	36,000	18,000	-
Mildred Elley	323,592	3,126,408	-
MVP Parking Garage	-	-	8,112,261
Parking Program	1,027,828	-	823,825
Parking Remediation	173,220	176,780	-
Precision Industrial Maintenance Warehouse	-	210,000	20,000
Precision Valve	285	-	-
Princetown Water District	96,642	189,798	30
Proctor's Block Streetscape	739,960	1,230,040	-
Proctor's Theatre	51,300	1,015,252	7,572,559
PVA Expansion Grant	-	59,715	-
Railex Transportation	250,248	4,752	-
Robinson Building Redevelopment	-	310,000	-

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE H - PROJECT GRANTS AND COMMITMENTS - Continued

	Project Grants <u>2006</u>	Unspent Project Commitments at December 31, <u>2006</u>	Project Grants <u>2005</u>
Schenectady County Community Business Center III	78,000	3,000	171,878
Schenectady Family Health Services	-	-	15,136
SLDC State Street Relief Loan Fund	-	-	100,000
Send Word Now	-	-	205,166
State Street North Properties	32,893	34,618	832,489
State Streetscape Phase II	45,084	64,584	217,993
Stratton A. N. G. B.	-	-	25,000
Tailwind Associates	-	-	35,000
Time-Warner Cable	70,000	-	-
Upper Union Street Façade Program	227,459	38,983	201,733
Upper Union Street Revitalization	-	-	38,260
Utech Products	-	-	105,639
Vale Village Revitalization	196,546	60,644	1,102,628
Van Dyck Restaurant	10,000	8	17,420
Villa Italia	3,383	-	150,000
Zone 5 Regional Law Enforcement Training Center	-	-	698
Professional services and predevelopment costs (a)	<u>541,791</u>	-	<u>495,435</u>
	6,530,865	<u>\$ 12,840,038</u>	23,201,484
Project grant revenues	<u>(1,643,176)</u>		<u>(449,026)</u>
	<u>\$ 4,887,689</u>		<u>\$ 22,752,458</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, 2006, the Authority has approved project grants, expenditures, and loans totaling \$99,354,334, of which \$86,513,486 has been distributed.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE I - 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 for the years ended December 31, were as follows:

2006	\$ 23,414
2005	40,459
2004	43,548

NOTE J - 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. At December 31, 2006, there was \$47,070,000 of outstanding obligations related to its General Resolution Bonds described in Note E.

2. Collateralization, Bank Deposits

The Authority's cash deposits must be fully collateralized at all times. As of December 31, 2006, the Authority's bank deposits were fully collateralized or insured by the FDIC.

3. Leases

The Authority leases its office space. Terms of the lease include monthly payments of \$3,028 for a one-year term expiring on January 31, 2007. During February 2007, the Authority renewed this lease under a month-to-month agreement, at \$2,962 per month.

The Authority also leases an automobile for use by its Executive Director. Terms of the lease include monthly payments of \$399 and expires January 2009.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2006 and 2005**

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

3. *Leases - Continued*

Total lease expense for December 31, 2006 and 2005, was \$40,945 and \$39,900, respectively.

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

For the year ending December 31, 2007	\$ 7,816
2008	<u>4,788</u>
	<u>\$ 12,604</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 liability upon termination would be approximately \$61,500.

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, 2006, the Authority recognized sales tax revenues of \$7,144,435. As of December 31, 2006, the Authority has outstanding project and loan commitments totaling \$12,840,038, which the Authority has authorized to be distributed in the next fiscal year. The Authority also has current liabilities of \$2,902,007 at December 31, 2006, payable during 2007.

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 five-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, 2006.

As of December 31, 2006, the Authority was not obligated to return revenues to the County, other than those described in Note F.

6. *Litigation Claims*

The Authority is involved in several claims from outside parties. No formal action has commenced as a result of these claims, and the claims are being reviewed by management and counsel for merit. The claims are in the pre-discovery stage, and 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 June 25, 2007. No adjustment has been made to these financial statements related to this claim.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2006 and 2005

NOTE K - NET ASSETS

The Authority has reported a deficit in its net assets as of December 31, 2006. 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.