

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

FINANCIAL REPORT

December 31, 2008 and 2007

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(A New York Public Benefit Corporation)**

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C O N T E N T S

	Page
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	
Responsibility and Controls	2
Audit Assurance	2
Financial Highlights	3
Required Financial Statements	3
Summary of Organization and Business	4
Financial Analysis	5
Condensed Statements of Net Assets	5
Condensed Statements of Revenues, Expenses, and Changes in Net Assets	5
General Trends and Significant Events	6
Financial Condition	6
Results of Operations	6
Long-Term Obligations	6
Final Comments	6
Contacting the Authority's Director of Finance	7
Principal Officials	7
FINANCIAL STATEMENTS	
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11-35
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	36-37

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

We have audited the accompanying statements of net assets of Schenectady Metroplex Development Authority (a New York public benefit corporation) as of December 31, 2008 and 2007, 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 Schenectady Metroplex Development 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free 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, 2008 and 2007, 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.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2009, on our consideration of the Schenectady Metroplex Development Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Bollam Sheedy Torani & Co. LLP

Albany, New York
April 29, 2009

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, 2008, 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, 2008. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

The year 2008 marked another outstanding year for the Authority. The Authority continued the growth of its redevelopment investments and activities within its statutory service area, and management believes the Authority's financial position remains very strong. Following are some of the highlights of 2008 results:

- The overall financial position of the Authority was strong at year-end, with revenue increasing over that of the prior year by 4%, consistent with long-term trends and management expectations, with typical annual growth in sales tax revenues at 3% within Schenectady County. The continuing contraction of the national and regional economies, particularly in the consumer sector that drives the sales tax revenue stream, is viewed by management as a cause for some concern, and revenue growth in the near term is expected to be affected.
- Total operating expenses increased by 5.5%. Certain legal costs associated with litigation activity, staff compensation adjustments, and increases in marketing activity were the major contributors to the increase.
- A 13.5% increase in other financing uses reflect an increase in interest expense associated with the Authority's Bond Anticipation Note originating in 2008, and a decrease in investment earnings from 2007 resulting from rapidly declining short-term interest rates.
- Total assets declined by 8% to \$26.6 million. The bulk of this decrease was due to the utilization of bond funds for their intended project expenditures.
- Net operating revenues increased by \$243,972, up 4% from those of 2007, despite the increase in operating expense mentioned above. The net revenues were virtually unchanged at \$4.4 million, compared to those of 2007.
- Net project grants and expenditures were \$7.5 million in 2008. A decrease of \$2.2 million from 2007's level.
- The Authority's accumulated deficit was \$21.8 million, at December 31, 2008, compared to an accumulated deficit of \$18.6 million at December 31, 2007.

REQUIRED FINANCIAL STATEMENTS

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

The statement of net assets 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, 2033, 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>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
ASSETS				
Current assets	\$ 6,985,220	\$ 8,337,386	\$ (1,352,166)	-16.2%
Capital assets, net	24,437	34,998	(10,561)	-30.2%
Other assets	<u>19,612,775</u>	<u>20,571,503</u>	<u>(958,728)</u>	-4.7%
	<u>\$ 26,622,432</u>	<u>\$ 28,943,887</u>	<u>\$ (2,321,455)</u>	-8.0%
LIABILITIES AND NET ASSETS				
Current liabilities	\$ 5,152,312	\$ 2,897,442	\$ 2,254,870	77.8%
Long-term debt	43,251,164	44,951,697	(1,700,533)	-3.8%
Net assets invested in capital assets, net of related debt	24,437	34,998	(10,561)	-30.2%
Net assets, restricted	3,139,883	3,024,376	115,507	3.8%
Net assets, unrestricted	<u>(24,945,364)</u>	<u>(21,964,626)</u>	<u>(2,980,738)</u>	13.6%
	<u>\$ 26,622,432</u>	<u>\$ 28,943,887</u>	<u>\$ (2,321,455)</u>	-8.0%

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

	<u>2008</u>	<u>2007</u>	<u>\$ Change</u>	<u>% Change</u>
Sales tax revenue	\$ 7,475,620	\$ 7,154,961	\$ 320,659	4.5%
Other operating revenues	<u>36,600</u>	<u>63,580</u>	<u>(26,980)</u>	-42.4%
Total operating revenues	<u>7,512,220</u>	<u>7,218,541</u>	<u>293,679</u>	4.1%
Depreciation and amortization	14,859	16,683	(1,824)	-10.9%
Other operating expenses	<u>943,802</u>	<u>892,271</u>	<u>51,531</u>	5.8%
Total operating expenses	<u>958,661</u>	<u>908,954</u>	<u>49,707</u>	5.5%
Net operating revenues	6,553,559	6,309,587	243,972	3.9%
Other financing sources (uses)	<u>(2,196,939)</u>	<u>(1,934,960)</u>	<u>(261,979)</u>	13.5%
Net revenues	4,356,620	4,374,627	(18,007)	-0.4%
NET ASSETS, beginning of year	(18,905,252)	(13,363,687)	(5,541,565)	41.5%
Project grants, net of project grant revenues	<u>(7,232,412)</u>	<u>(9,916,192)</u>	<u>2,683,780</u>	-27.1%
NET ASSETS, end of year	<u>\$(21,781,044)</u>	<u>\$(18,905,252)</u>	<u>\$ (2,875,792)</u>	15.2%

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2008, the pace of the Authority's redevelopment efforts in the downtown core of Schenectady continued with many of its prior commitments reaching completion, and those more recent being well underway.

FINANCIAL CONDITION

The overall financial position of the Authority was strong at year-end, with revenue increasing over that of the prior year by 4%. Total expenses in 2008 increased \$49,707 from the prior year.

The Authority paid \$1,580,000 in bond principal during 2008.

Despite the latest fluctuation in its sales tax revenues stream, 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 2008, exclusive of unrealized gain/loss on investments, was \$7,512,220, compared to \$7,218,541 in 2007.

Expenses

Total operating expenses for the year 2008 were \$958,661, compared to \$908,954 in 2007. Cash and cash equivalents on hand for debt service payments were in excess of \$4.8 million.

LONG-TERM OBLIGATIONS

As of December 31, 2008, the Authority had \$43,720,000 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 \$1,655,000 during 2008.

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

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.

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, 2013
Bradley G. Lewis	Vice Chair	December 31, 2013
Robert L. Wall	Secretary	December 31, 2011
Sharon A. Jordon	Treasurer	December 31, 2011
Edward L. Capovani		December 31, 2011
William R. Chapman		December 31, 2011
Neil M. Golub		December 31, 2013
Janet Hutchison		December 31, 2013
Robert J. Mantello		December 31, 2013
Gary McCarthy		December 31, 2008*
Patrick J. Saccocio		December 31, 2011

* Director continues to serve in its capacity 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>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	\$ 1,831,132	\$ 2,071,463
Cash, restricted	510,906	415,341
Accounts receivable	3,216,164	3,508,603
Current installments of loans receivable, net	1,310,184	2,201,937
Interest receivable	5,443	29,003
Prepaid expenses, current portion	45,918	45,566
Bond issuance costs, current portion	65,473	65,473
Total current assets	<u>6,985,220</u>	<u>8,337,386</u>
CAPITAL ASSETS, net	<u>24,437</u>	<u>34,998</u>
OTHER ASSETS		
Loans receivable, less current installments, net	14,909,335	16,042,498
Note receivable, net	550,000	300,000
Investment reserves, restricted	3,071,783	3,024,376
Bond issuance costs, net of amortization	1,081,657	1,147,129
Prepaid expenses	-	57,500
	<u>19,612,775</u>	<u>20,571,503</u>
	<u>\$ 26,622,432</u>	<u>\$ 28,943,887</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current installments of bonds payable	\$ 1,655,000	\$ 1,580,000
Bond anticipation notes payable	2,000,000	-
Accounts payable and accrued expenses	217,193	112,039
Accrued interest	791,780	746,188
Due to the County of Schenectady, current portion	38,601	36,942
Premium on bonds, net of amortization, current portion	6,932	6,932
Escrow payable	442,806	415,341
Total current liabilities	<u>5,152,312</u>	<u>2,897,442</u>
LONG-TERM DEBT		
Bonds payable, less current installments	42,065,000	43,720,000
Due to the County of Schenectady, less current portion	1,082,178	1,120,779
Premium on bonds, net of amortization, less current portion	103,986	110,918
	<u>43,251,164</u>	<u>44,951,697</u>
Total liabilities	<u>48,403,476</u>	<u>47,849,139</u>
NET ASSETS		
Invested in capital assets, net of related debt	24,437	34,998
Restricted	3,139,883	3,024,376
Unrestricted	(24,945,364)	(21,964,626)
	<u>(21,781,044)</u>	<u>(18,905,252)</u>
	<u>\$ 26,622,432</u>	<u>\$ 28,943,887</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>2008</u>	<u>2007</u>
OPERATING REVENUES		
Sales tax revenues	\$ 7,475,620	\$ 7,154,961
Other income	36,600	49,180
Rent	-	14,400
	7,512,220	7,218,541
OPERATING EXPENSES		
Payroll	418,392	385,772
Payroll taxes	33,845	35,547
Pension plan	30,307	33,735
Health insurance	46,449	44,349
Other employee benefits	4,538	5,217
Accounting	51,850	45,300
Advertising	49,522	24,547
Automobile	7,220	6,980
Consulting	13,800	30,264
Depreciation and amortization	14,859	16,683
Dues and subscriptions	4,405	4,385
Educational training	5,425	-
Hosting and travel	3,830	3,674
Insurance	23,330	21,664
Legal	130,629	135,924
Office supplies	19,677	12,598
Postage	4,144	5,148
Rent	36,332	36,332
Repairs and maintenance	19,821	19,504
Resource data	24,972	25,873
Telephone	15,314	15,458
	958,661	908,954
Net operating revenues	6,553,559	6,309,587
OTHER FINANCING SOURCES (USES)		
Investment earnings	228,456	576,585
Interest expense	(2,352,254)	(2,430,951)
Amortization of bond issuance costs	(65,472)	(65,471)
Debt service fees	(16,000)	(22,075)
Miscellaneous revenue	8,331	6,952
	(2,196,939)	(1,934,960)
Increase in net assets	4,356,620	4,374,627
NET ASSETS, <i>beginning of year</i>	(18,905,252)	(13,363,687)
Project grants and expenditures, net of project grant revenues	(7,232,412)	(9,916,192)
NET ASSETS, <i>end of year</i>	\$ (21,781,044)	\$ (18,905,252)

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>2008</u>	<u>2007</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from sales tax revenues	\$ 7,528,059	\$ 7,059,186
Cash received from other sources	36,600	49,180
Cash received from rent	-	14,400
Cash paid to suppliers and other vendors	(414,809)	(392,868)
Cash paid for salaries and employee benefits	(528,993)	(499,403)
	<u>6,620,857</u>	<u>6,230,495</u>
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Proceeds from bond anticipation note issuance	2,000,000	-
Debt service fees	(16,000)	(22,075)
Bond issuance costs	-	(6,033)
Repayment of bond principal	(1,580,000)	(1,770,000)
Repayment of amounts due to the County of Schenectady	(36,942)	(35,355)
Interest paid	(2,306,662)	(2,121,384)
	<u>(1,939,604)</u>	<u>(3,954,847)</u>
CASH FLOWS PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of office furniture and equipment	<u>(4,298)</u>	<u>(9,073)</u>
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Change in cash, restricted	(68,100)	517,132
Purchase of investment reserves, restricted, net	(47,407)	(304,765)
Issuance of loans receivable	(332,532)	(3,195,897)
Repayment of loans receivable	1,937,316	1,141,827
Issuance of note receivable	(250,000)	-
Investment earnings received	252,016	569,977
Miscellaneous revenue	1,399	20
Project grants and expenditures paid, net of project grant revenues received	(6,409,978)	(9,698,249)
	<u>(4,917,286)</u>	<u>(10,969,955)</u>
Net decrease in cash and cash equivalents	(240,331)	(8,703,380)
CASH AND CASH EQUIVALENTS, <i>beginning of year</i>	<u>2,071,463</u>	<u>10,774,843</u>
CASH AND CASH EQUIVALENTS, <i>end of year</i>	<u>\$ 1,831,132</u>	<u>\$ 2,071,463</u>
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating revenues	\$ 6,553,559	\$ 6,309,587
Adjustments to reconcile net operating revenues to net cash provided (used) by operating activities		
Depreciation and amortization	14,859	16,683
Increase in accounts receivable	52,439	(95,775)
	<u>\$ 6,620,857</u>	<u>\$ 6,230,495</u>

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

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

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, 2033. The Schenectady Metroplex Development Authority Act (Act) was created by the New York State Legislature with powers to provide the State of New York and the County with the capability to effectively and efficiently develop, renovate, and optimize the economic and social activities of the Route 5 and Route 7 corridors of the County. The Authority began operations on January 1, 1999.

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

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, 2008, 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 I). There were no other transactions between the Authority and the LLC during 2008 or 2007. During March 2009, the Board approved the dissolution of the LLC.

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 2008 and 2007. Actual results could differ from those estimates.

3. Fair Value Measurement

The Authority adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement*, effective January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. The adoption of SFAS No. 157 did not have a material impact on the financial statements or results of operations of the Authority. SFAS No. 157 applies to all assets and liabilities that are measured and reported on a fair value basis.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

4. *Sales Tax Revenues*

Pursuant to Subdivision (C) of Section 1210 (C) of the tax law, the County shall dedicate one-half of one percent of County sales and compensating use tax on all sales and compensating uses taxable pursuant to Article 29 of the tax law, beginning on September 1, 1998, and ending on August 31, 2033, and shall annually deposit such net collections received there from in the Schenectady Metroplex Development Authority Support Fund. 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.

5. *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 \$56,429 and \$238,399 for the years ended December 31, 2008 and 2007, respectively.

6. *Cash, Restricted*

At December 31, 2008, restricted cash consisted of escrow deposits held for the Downtown Schenectady Façade Program, the Upper Union Street Façade Program (Note I), and a deposit held for Bombers on State Street as collateral in support of a construction loan commitment from Key Bank.

Restricted cash at December 31, 2007, consisted of escrow deposits held for the Downtown Schenectady Façade Program and the Upper Union Street Façade Program (Note I).

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, 2008 and 2007.

Loans and notes receivable are carried at the original loan amount less payments of principal received. Accrued interest income is reported for loan interest earned but not received at year-end. As of December 31, 2008 and 2007, reserves of \$428,500 and \$668,500 have been established to offset two and four separate loans/notes receivable, respectively. In one instance, if the recipient fulfills the terms of the agreement, the loan will be forgiven.

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

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE A - SUMMARY OF ACCOUNTING POLICIES - Continued

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.

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.

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

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. *Accounting Standard Not Yet Implemented*

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets in an effort to reduce inconsistencies in accounting and financial reporting of intangible assets. This statement is effective for the Authority as of January 1, 2010.

The effect, if any, of fully implementing this standard on the Authority's financial statements has not been determined as of December 31, 2008.

NOTE B - LOANS RECEIVABLE

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

	December 31,	
	<u>2008</u>	<u>2007</u>
3N2, LLC repayable over a 10-year period, due in monthly installments of \$1,207, including interest at 3%, matures July 2015 (w)	\$ 92,374	\$ 99,138

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	2008	2007
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)	1,300,000	1,300,000
510 Union Street, repayable over a 15-year period, due in monthly installments of principal of \$1,944, matures May 2018, interest free (f)	226,528	246,945
Backstage Pub, repayable over a 10-year period, due in monthly installments of \$483 including interest at 3%, matures January 2017 (y)	41,544	46,015
Big House 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)	1,100,000	1,100,000
Bombers on State Street, repayable over a 15-year period, at 5% interest with interest only payments of \$1,042 for the first five years, interest and principal payments of \$2,652 for the remaining term, matures December 2023 (ee)	250,000	-
Bow Tie Partners, LLC, repayable over a 20-year period, due in monthly installments of \$4,167, matures 20 years from the completion of the project, with a balloon payment for the remaining balance, interest free (aa)	3,858,817	3,943,817
Broadway Commerce Park, repayable over a 20-year period, due in monthly installments of \$4,500, matures November 2020, interest free (q)	909,000	963,000
Child Program and Family Resource Center, repayable over a 10-year period, due in monthly installments of \$2,004, interest free, matures May 2017, an equal amount shall be forgiven assuming all payments are made (a)	428,938	454,995
Clinton's Ditch, repayable over a 15-year period, due in monthly installments of \$278, matures August 2020, interest free (r)	38,611	41,944
Cornell's Restaurant, repayable over a 15-year period, due in monthly installments of principal ranging from \$323 to \$1,706, matures October 2022, interest free (e)	223,941	223,941

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE B - LOANS RECEIVABLE - Continued

	<u>December 31,</u> <u>2008</u>	<u>2007</u>
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, a balloon payment of \$955,633 was due on June 1, 2007, and extended through October 2008 with monthly installments ranging from \$14,000 to \$197,468 (b)	-	662,783
David Louis Floor Covering, repayable over a 15-year period, due in monthly installments of \$1,222, matures November 2019, interest free (s)	162,556	177,222
Grupo Lucano, LLC, repayable over a 20-year period, due in monthly installments of \$2,475, with a balloon payment for the remaining balance, including interest at 5%, matures 20 years from the completion of the project, property sold and loan satisfied during 2008 (cc)	-	302,612
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)	139,273	147,296
Integra Development, repayable over a 15-year period, due in monthly installments of principal of \$580, matures December 2019, interest free (l)	73,021	79,976
Logical Net, repayable over a 10-year period, due in monthly installments of \$1,448, including interest at 3%, matures December 2011 (t)	107,407	121,329
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. (z)	200,000	700,000

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	2008	2007
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)	695,595	715,747
Proctor's Theatre, repayable on demand, interest free (dd)	300,000	300,000
Quality Roofing Supply, repayable over a 15-year period, due in monthly installments of principal of \$1,733, matures November 2019, interest free (i)	227,067	249,600
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)	418,190	434,668
Rotterdam Ventures, Inc., repayable over a 5-year period, due in monthly installments of \$767, including interest at 5%, matures March 2011.	18,866	26,900
Schenectady Access Cable Council, Inc., due on demand based on receipt of various New York State grants	32,500	32,500
Schenectady Access Cable Council, Inc., repayable over a 3-year period, due in monthly installments of \$391, matures July 2010, interest free	14,093	14,093
Schenectady Family Health Services, repayable over a 20-year period, due in monthly installments of \$6,250, matures February 2026, interest free (u)	1,287,500	1,362,500
Schenectady Hotel, LLC, repayable over a 19-year period, due in monthly installments of \$8,772, matures March 2027, interest free (bb)	1,929,825	2,000,000
Send Word Now, repayable over a 5-year period, due in monthly installments of interest only at rates ranging from 1% to 5% and quarterly principal payments of \$50,000 beginning January 2008, matures December 2009, with a balloon payment for any remaining balance (j)	600,000	800,000
Synthesis Architects, repayable over a 15-year period, due in monthly installments of principal of \$972, matures October 2018, interest free (g)	114,722	127,361
Tailwind Associates, repayable over a 10-year period, due in monthly installments of \$483, including interest at 3%, matures December 2015 (v)	36,484	40,726

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B - LOANS RECEIVABLE - Continued

	December 31,	
	2008	2007
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)	561,167	596,042
Van Dyck Restaurant, due in full during September 2006, with interest rates ranging from 0% to 6%, defaulted on payments, property sold and balance due charged against project expenses (n)	-	274,989
Villa Italia, repayable over a 20-year period, due in monthly installments of \$1,667, matures November 2025, interest free (x)	336,667	355,000
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)	-	1,102
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)	723,333	770,694
	16,448,019	18,712,935
Less: Reserve	228,500	468,500
Current installments	1,310,184	2,201,937
Loans, receivable, less current installments	<u>\$ 14,909,335</u>	<u>\$ 16,042,498</u>

- (a) Secured by a mortgage, subordinate to the primary lender and guaranteed by related party.
- (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.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE B - LOANS RECEIVABLE - Continued

- (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.
- (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.
- (cc) Secured by a first mortgage on the property, a lien on equipment, assignment of leases and rents, and personal guarantee by the member of the company.
- (dd) Secured by a pledge of the organization's endowments funds.
- (ee) Secured by a mortgage on the property, all business assets, and assignment of leases.

Interest earnings on loans receivable were \$86,753 and \$140,764 for the years ended December 31, 2008 and 2007, respectively.

NOTE C - NOTES RECEIVABLE

1. *L&S Realty, Inc.*

During 2000, the Authority sold redeveloped land to L&S Realty, Inc. for \$300,000. As consideration, the Authority received a 15-year note receivable. No payments 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.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE C - NOTES RECEIVABLE - Continued

2. *426 State Street Associates, LLC*

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

3. *447 State Street*

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

NOTE D CAPITAL ASSETS

Capital assets are summarized as follows:

	January 1, <u>2008</u>	<u>Additions</u>	December 31, <u>2008</u>
Office furniture and equipment	\$ 162,739	\$ 4,298	\$ 167,037
Leasehold improvements	<u>8,509</u>	<u>-</u>	<u>8,509</u>
	171,248	4,298	175,546
Accumulated depreciation	<u>(136,250)</u>	<u>(14,859)</u>	<u>(151,109)</u>
	<u>\$ 34,998</u>	<u>\$ (10,561)</u>	<u>\$ 24,437</u>
	January 1, <u>2007</u>	<u>Additions</u>	December 31, <u>2007</u>
Office furniture and equipment	\$ 153,666	\$ 9,073	\$ 162,739
Leasehold improvements	<u>8,509</u>	<u>-</u>	<u>8,509</u>
	162,175	9,073	171,248
Accumulated depreciation	<u>(119,567)</u>	<u>(16,683)</u>	<u>(136,250)</u>
	<u>\$ 42,608</u>	<u>\$ (7,610)</u>	<u>\$ 34,998</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE E - 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 F). These costs, totaling \$1,407,044 at December 31, 2008 and 2007, 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, 2008 and 2007, totaled \$259,913 and \$194,442, respectively. Amortization expense for each of the five years subsequent to December 31, 2008, will be \$65,473.

NOTE F - BOND ANTICIPATION NOTES

In anticipation of the issuance of bonds in 2009, the Authority issued bond anticipation notes of \$2,000,000. The bond anticipation notes mature on June 19, 2009, without the option of prior redemption and have an interest rate of 4.325%.

Interest expense accrued on the bond anticipation notes was \$46,213 for the year ended December 31, 2008.

NOTE G - 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 began 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.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE G - BONDS PAYABLE, NET - Continued

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

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>2008</u>	<u>2007</u>
Bonds payable, beginning of year	\$ 45,300,000	\$ 47,070,000
Principal payments	<u>(1,580,000)</u>	<u>(1,770,000)</u>
Bonds payable, end of year	<u>\$ 43,720,000</u>	<u>\$ 45,300,000</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, 2009	\$ 1,655,000	\$ 2,183,729
2010	1,730,000	2,109,304
2011	1,810,000	2,030,394
2012	1,890,000	1,947,474
2013	1,975,000	1,862,493
For the years ending December 31, 2014 through 2018	11,405,000	7,780,661
2019 through 2023	13,150,000	4,705,856
2024 through 2028	<u>10,105,000</u>	<u>1,597,116</u>
	<u>\$ 43,720,000</u>	<u>\$ 24,217,027</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE G - BONDS PAYABLE, NET - Continued

Interest expense for the years ended December 31, 2008 and 2007, was \$2,254,474 and \$2,360,055, respectively. Interest paid during the years ended December 31, 2008 and 2007, totaled \$2,254,679 and \$2,067,817, respectively.

As required by the bond documents, the Authority is required to establish and maintain certain reserves for the benefit of the bondholders. These reserves, which are made up of U.S. Treasury money markets and cash, are held in trust by M&T Investment Group and are reported at fair value at December 31, as follows:

	<u>2008</u>	<u>2007</u>
<i>Investment reserves, restricted</i>		
Revenue Fund	\$ -	\$ 799
Debt Service Reserve Fund	2,149,330	2,115,728
Debt Service Fund	<u>922,453</u>	<u>907,849</u>
	<u>\$ 3,071,783</u>	<u>\$ 3,024,376</u>

NOTE H - 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%.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
For the year ending December 31, 2009	\$ 38,601	\$ 50,323	\$ 88,924
2010	40,334	48,590	88,924
2011	42,145	46,779	88,924
2012	44,038	44,886	88,924
2013	46,015	42,909	88,924
For the years ending December 31, 2014 through 2018	262,984	181,636	444,620
2019 through 2023	327,569	117,051	444,620
2024 through 2028	<u>319,093</u>	<u>36,603</u>	<u>355,696</u>
	<u>\$ 1,120,779</u>	<u>\$ 568,777</u>	<u>\$ 1,689,556</u>

Interest expense for the years ended December 31, 2008 and 2007, was \$51,567 and \$70,896, respectively. Interest paid during the years ended December 31, 2008 and 2007, totaled \$51,982 and \$53,569, respectively.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS

A summary of the Authority's project grants and commitments, with activity, as of and for the years ended December 31, 2008 and 2007, is as follows:

Alco Redevelopment

The Authority has approved expenditures of \$420,000 for this project. As of December 31, 2008, the Authority had incurred expenses of \$342,688 in connection with this project.

Big House Schenectady

The Authority has approved a grant of \$350,000, a loan of \$1,100,000, and related expenses of \$100,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$330,000, made the loan of \$1,100,000, and had incurred expenses of \$99,304 in connection with this project.

Bombers on State Street

The Authority has approved grants of \$204,315, loans of \$500,000, and related expenses of \$100,000 for this project. As of December 31, 2008, the Authority had made the loans of \$500,000 and incurred expenses of \$71,400 in connection with this project.

Broadway Corridor

The Authority has approved a grant of \$126,070 and related expenses of \$167,330 for this project. As of December 31, 2008, the Authority had incurred expenses of \$165,180 in connection with 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, 2008, the Authority had granted \$272,493 in connection with this project.

Center City Tenant Relocation

The Authority has approved a grant of \$22,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$22,000 in connection with this project.

Child Program and Family Resource Center

The Authority has approved a loan of \$490,000 and related expenses of \$228,500 for this project. As of December 31, 2008, the Authority had made the loan of \$490,000 and had incurred expenses of \$228,500 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Clinton Square

The Authority has approved expenditures of \$1,941,468 for this project. As of December 31, 2008, the Authority had incurred expenses of \$1,927,090 in connection with this project.

Close-Witbeck Building Renovation

The Authority had approved a grant of \$550,000, a loan of \$1,300,000, and related expenses of \$57,884 for this project. As of December 31, 2008, the Authority had distributed \$350,000 of the grant, made the loan of \$1,300,000, and had incurred expenses of \$57,884 in connection with this project.

Countrywide Façade Program

The Authority has approved grants of \$350,000 and related expenses of \$5,000 for this project. As of December 31, 2008, the Authority has incurred expenses of \$7,006 in connection with this project.

Dorp Salvage Demolition

The Authority has approved a grant of \$100,000, a loan of \$800,000, and related expenses of \$25,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$100,000, made the loan of \$800,000, and had incurred expenses of \$23,016 in connection with this project.

Downtown Schenectady Façade Program IV

The Authority has approved a grant of \$495,000 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 \$2,000. As of December 31, 2008, the Authority had distributed \$380,574 of the grant and had not incurred any expenditures in connection with this project.

Downtown Parking

The Authority has approved expenditures of \$6,879,855 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, 2008, the Authority had incurred expenditures of \$6,879,855 in connection with this project.

Downtown Special Assessment Districts

The Authority has approved grants of \$574,000 and \$5,353 for related expenses in connection with these projects. As of December 31, 2008, the Authority had distributed \$458,633 of grants and had incurred \$876 in expenditures in connection with these projects.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Fortitech Expansion

The Authority has approved a grant of \$150,000 and \$10,000 for related expenses in connection with this project. As of December 31, 2008, the Authority had distributed \$85,000 of the grant and had not incurred any expenditures in connection with this project.

400 State Street Cinema

The Authority has approved a grant of \$1,200,000, a loan of \$3,960,000, and related expenses of \$105,743 for this project. As of December 31, 2008, the Authority had distributed the grant of \$1,200,000, made the loan of \$3,960,000, and had incurred expenses of \$105,743 in connection with this project.

409 State Street

The Authority has approved a grant of \$50,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$50,000 in connection with this project.

411 State Street

The Authority has approved expenditures of \$327,188 for this project. As of December 31, 2008, the Authority has incurred expenses of \$327,188 in connection with this project.

423 Liberty Street

The Authority has approved expenditures of \$475,000 for this project. As of December 31, 2008, the Authority has incurred expenses of \$444,869 in connection with this project.

440 State Street

The Authority has approved a grant of \$73,000 and related expenses of \$2,000 for this project. As of December 31, 2008, the Authority had distributed \$17,017 of the grant and had incurred expenses of \$925 in connection with this project.

447 State Street

The Authority has approved expenditures of \$240,000 for this project. As of December 31, 2008, the Authority had incurred expenses of \$125,860 in connection with this project.

451 Nott Street

The Authority has approved expenditures of \$369,670 for this project. As of December 31, 2008, the Authority had incurred expenses of \$369,670 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

453 State Street

The Authority has approved a grant of \$250,000 and related expenses of \$20,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$250,000 and had incurred expenses of \$15,994 in connection with this project.

GE Theater Façade

The Authority has approved a grant of \$125,000 and related expenses of \$2,000 for this project. As of December 31, 2008, the Authority had distributed \$117,439 of the grant and had incurred expenses of \$300 in connection with this project.

Griffin Greenhouse

The Authority has approved a grant of \$300,000 and related expenses of \$25,000 for this project. As of December 31, 2008, the Authority had distributed \$300,000 of the grant and had incurred expenses of \$21,778 in connection with this project.

Hampton Inn

The Authority has approved grants of \$1,120,000, a loan for \$2,000,000, and \$209,944 for related expenses in connection with this project. As of December 31, 2008, the Authority had distributed the grants of \$1,120,000, made loans of \$2,000,000, and had incurred expenditures of \$209,944 in connection with this project.

Jay Street Lighting Project

The Authority has approved expenditures of \$240,000 for this project. As of December 31, 2008, the Authority had not incurred any expenses in connection with this project.

LaSartoria II

The Authority has approved expenditures of \$850,878 for this project. As of December 31, 2008, the Authority had incurred expenses of \$850,878 in connection with this project.

Logical Net Relocation

The Authority has approved grants of \$302,975, a loan of \$149,011, and related expenses of \$13,137 for this project. As of December 31, 2008, the Authority had distributed the grants of \$302,975, made the loan of \$149,011, and incurred expenses of \$13,137 in connection with this project.

Mildred Elley

The Authority has approved grants of \$934,388 for this project. As of December 31, 2008, the Authority had incurred expenses of \$934,388 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Muddy Cup

The Authority has approved a grant of \$50,000 and related expenses of \$2,500 for this project. As of December 31, 2008, the Authority had distributed the grant of \$50,000 and had not incurred any expenses in connection with this project.

Nico's Pizzeria

The Authority has approved a grant of \$60,000 and related expenses of \$600 for this project. As of December 31, 2008, the Authority had distributed the grant of \$60,000 and incurred expenses of \$600 in connection with this project.

Northeastern Fine Jewelry

The Authority has approved a grant of \$80,000 and related expenses of \$5,000 for this project. As of December 31, 2008, the Authority had distributed the grant of \$80,000 and had not incurred any expenses in connection with this project.

NY Rubber Recycling

The Authority has approved grants of \$500,000 for this project. As of December 31, 2008, the Authority had distributed \$250,000 of the grants in connection with this project.

Op-Tech Environmental Relocation

The Authority has approved a grant of \$20,000 and related expenses of \$215 for this project. As of December 31, 2008, the Authority had distributed the grant of \$20,000 and incurred expenses of \$215 in connection with this project.

Parking Improvements 2008

The Authority has approved expenditures of \$900,000 for this project. As of December 31, 2008, the Authority had incurred expenses of \$483,043 in connection with this project.

Parking Program

The Authority has approved expenditures for the operation of a parking garage and seven surface parking lots in the City of Schenectady. The revenues from the parking system are recorded as project revenues, and the operating expenses are recorded as project expenditures.

Parking Remediation

The Authority has approved expenditures of \$470,000 for this project. As of December 31, 2008, the Authority had incurred expenditures of \$397,212 in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Princetown Water District

The Authority has approved a grant of \$434,750 to the Town of Princetown and expenditures of \$5,000 in connection with this project. As of December 31, 2008, the Authority had distributed the grants of \$434,750 and had incurred expenditures of \$3,120 in connection with this project.

Proctor's Block Streetscape

The Authority has approved grants of \$2,465,000 and related expenses of \$50,000 for this project. As of December 31, 2008, the Authority had distributed the grants of \$2,465,000 and had incurred expenses of \$21,644 in connection with this project.

Proctor's Theatre

The Authority has approved grants of \$10,025,000, a loan of \$600,000, and \$150,297 in related expenses to the Arts Center & Theatre of Schenectady in connection with this project. As of December 31, 2008, the Authority had distributed the grants of \$10,025,000, made the loan of \$600,000, and had incurred expenses of \$150,297 in connection with this project.

Railex Transportation

The Authority has approved grants of \$250,000 and related expenses of \$12,628 for this project. As of December 31, 2008, the Authority had distributed the grants of \$250,000 and had incurred expenses of \$12,628 in connection with this project.

Robinson Building Redevelopment

The Authority has approved grants of \$177,000 and related expenses of \$10,000 for this project. As of December 31, 2008, the Authority had distributed the grants of \$177,000 and had incurred expenses of \$7,595 in connection with this project.

Rotterdam Corporate Park/Building 14

The Authority has approved expenditures of \$1,050,000 for this project. As of December 31, 2008, the Authority had not incurred any expenses in connection with this project.

SACC TV - 16 Façade

The Authority has approved loans of \$46,593 and related expenses of \$1,500 for this project. As of December 31, 2008, the Authority had made the loans of \$46,593 and had incurred expenses of \$500 in connection with this project.

Schenectady Chamber Conferencing

The Authority has approved a grant of \$45,000 for this project. As of December 31, 2008, the Authority had distributed \$45,000 of the grant in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

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, 2008, the Authority had distributed the grant of \$171,878 and had incurred expenses of \$3,000 in connection with this project.

Schenectady County Community Business Center IV - VII

The Authority has approved grants of \$278,000 and related expenses of \$5,000 for these projects. As of December 31, 2008, the Authority had distributed grants of \$253,875 and had not incurred any expenses in connection with this projects.

Schenectady Green Market

The Authority has approved a grant of \$5,000 for this project. As of December 31, 2008, the Authority had distributed \$5,000 of the grant in connection with this project.

Security Life/Safe Relocation

The Authority has approved grants of \$63,400 and related expenses of \$1,600 for this project. As of December 31, 2008, the Authority had distributed grants of \$63,400 and had incurred expenses of \$330 in connection with this project.

Silver Diner

The Authority has approved a grant of \$40,000 and related expenses of \$10,000 for this project. As of December 31, 2008, the Authority had not distributed any of the grant and had not incurred any expenses in connection with this project.

797 Broadway Facade Project

The Authority has approved a grant of \$70,000 and related expenses of \$10,000 for this project. As of December 31, 2008, the Authority had not distributed any of the grant and had not incurred any expenses in connection with this project.

State Street North Properties

The Authority has approved grants of \$850,000 and related expenses of \$78,405 for this project. As of December 31, 2008, the Authority had distributed the grants of \$850,000 and had incurred expenses of \$78,405 in connection with this project.

State Streetscape Phase II

The Authority has approved grants to the City of Schenectady in the amount of \$2,783,677 for redesigning, reconstruction, and improvements of State Street between Erie Boulevard and Lafayette Street. As of December 31, 2008, the Authority had distributed \$2,783,677 in connection with this grant.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Stockade View Apartments Facade

The Authority has approved a grant of \$350,000 and related expenses of \$25,000 for this project. As of December 31, 2008, the Authority had not distributed any of the grant and had not incurred any expenses in connection with this project.

Union Graduate College Façade Project

The Authority has approved a grant of \$60,000 and related expenses of \$5,000 for this project. As of December 31, 2008, the Authority had not distributed any of the grant and had not incurred any expenses in connection with this project.

Upper Union Street Façade Program

The Authority has approved grants of \$891,000 and related expenses of \$5,000 in connection with this project. As of December 31, 2008, the Authority had distributed grants of \$751,185 and had incurred \$3,000 in related expenses in connection with this project.

Vale Village Revitalization

The Authority has approved grants of \$1,392,535 for improvements to the Vale neighborhood in the City of Schenectady. As of December 31, 2008, the Authority had distributed \$1,392,535 of the grants in connection with this project.

Van Dyck Restaurant

The Authority has approved expenditures of \$562,723 in connection with this project. As of December 31, 2008, the Authority had incurred expenses of \$562,723 in connection with this project.

Van Dyck Restoration

The Authority has approved loans of \$150,000 and related expenses of \$15,000 for this project. As of December 31, 2008, the Authority had not made any loans and had not incurred any expenses in connection with this project.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

Project grants distributed and expenditures incurred, net of project grant revenues, during the years ended December 31, and undistributed project commitments at December 31, 2008, were as follows:

	Project Grants <u>2008</u>	Unspent Project Commitments at December 31, <u>2008</u>	Project Grants <u>2007</u>
Alco Redevelopment	\$ 21,947	\$ 77,312	\$ 320,741
Big House Schenectady	-	-	11,113
Bombers on State Street	71,400	232,915	-
Broadway Corridor	-	-	165,180
Canal Square Corridor Streetscape	34,871	13,057	82,240
Center City Tenant Relocation	-	-	22,000
Child Program and Family Resource Center	-	-	228,500
Clinton Square	1,924,539	14,378	2,551
Close-Witbeck Building Renovation	-	-	359,581
Countrywide Façade Program	7,006	347,994	-
Dorp Salvage Demolition	-	-	102,049
Downtown Schenectady Façade Program	-	-	349,142
Downtown Façade Program IV	379,452	116,426	-
Downtown Parking	188,395	-	191,460
Downtown Special Assessment Districts	261,156	119,844	148,583
Fortitech Expansion	85,000	75,000	-
400 State Street Cinema	10,176	-	1,210,810
409 State Street	50,000	-	-
411 State Street	2,700	-	-
423 Liberty Street	444,869	30,131	-
440 State Street	16,792	57,058	1,150
447 State Street	125,860	114,140	-
451 Nott Street	369,970	-	-
453 State Street	6,280	4,006	259,714
GE Theatre Façade	-	9,261	117,739
Griffin Greenhouse	321,778	3,222	-
Hampton Inn	10,060	-	771,935
Jay Street Lighting Project	-	240,000	-
LaSartoria II	333,262	-	119,217

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
December 31, 2008 and 2007**

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

	Project Grants <u>2008</u>	Unspent Project Commitments at December 31, <u>2008</u>	Project Grants <u>2007</u>
Logical Net Relocation	71,975	-	1,768
Mildred Elley	149,017	-	461,779
Muddy Cup	-	-	50,000
Nico's Pizzeria	60,600	-	-
Northeastern Fine Jewelry	80,000	-	-
NY Rubber Recycling	-	-	250,000
Op-Tech Environmental	20,215	-	-
Parking Improvements 2008	483,043	416,957	-
Parking Program	1,322,010	-	1,231,732
Parking Remediation	62,129	72,788	161,863
Princetown Water District	-	-	340,418
Proctor's Block Streetscape	-	28,356	1,746,684
Proctor's Theatre	-	-	1,040,549
Railex Transportation	-	-	12,380
Robinson Building Redevelopment	-	-	184,595
Rotterdam Corporate Park/Building 14	-	1,050,000	-
SACC-TV 16 Façade	-	-	500
Schenectady Chamber Conferencing	45,000	-	-
Schenectady County Community Business Center III	-	-	70,500
Schenectady County Community Business Center IV - VII	113,375	29,125	-
Schenectady Green Market	5,000	-	-
Security Life/Safe Relocation	-	-	63,730
Silver Diner	-	50,000	-
797 Broadway Façade Program	-	80,000	-
State Street North Properties	-	-	63,023
State Streetscape Phase II	14,403	-	21,314
Stockage View Apartments Façade Project	-	375,000	-
Union Graduate College Façade Project	-	65,000	-
Upper Union Street Façade Program	128,770	141,815	174,155
Vale Village Revitalization	-	-	59,679
Van Dyck Restaurant	100,231	-	150,000
Van Dyck Restoration Project	-	165,000	-
Professional services and predevelopment costs (a)	770,250	-	674,749
	<u>8,091,531</u>	<u>\$ 3,928,785</u>	11,223,123
Project grant revenues	<u>(859,119)</u>		<u>(1,306,931)</u>
	<u>\$ 7,232,412</u>		<u>\$ 9,916,192</u>

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE I - PROJECT GRANTS AND COMMITMENTS - Continued

- (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, 2008, the Authority has approved project grants, expenditures, and loans totaling \$113,810,411, of which \$109,881,626 has been distributed.

NOTE J - 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:

2008	\$ 32,100
2007	29,044
2006	23,414

NOTE K - 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 principal amount of such outstanding obligations shall not exceed \$75,000,000. At December 31, 2008, the Authority had issued a total of \$49,925,000 in bonds and \$2,000,000 in bond anticipation notes. There were \$43,720,000 and \$45,300,000 of outstanding obligations, related to its General Resolution Bonds described in Note F, at December 31, 2008 and 2007, respectively.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

2. *Collateralization, Bank Deposits*

The Authority's cash deposits must be fully collateralized at all times. As of December 31, 2008, the Authority's bank deposits were fully collateralized or insured by the FDIC.

3. *Leases*

The Authority leases its office space. The Authority currently is under a month-to-month agreement, at \$3,028 per month.

The Authority also leases an automobile for use by its Executive Director. Terms of the lease include monthly payments of \$350 and expires December 2011.

Total lease expense for 2008 and 2007, was \$41,071 and \$41,120, respectively.

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

For the year ending December 31, 2009	\$ 4,200
2010	4,200
2011	<u>3,850</u>
	<u>\$ 12,250</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 \$66,500.

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, 2008, the Authority recognized sales tax revenues of \$7,475,620. As of December 31, 2008, the Authority has outstanding project and loan commitments totaling \$3,928,785, which the Authority has authorized to be distributed in the next fiscal year. The Authority also has current liabilities of \$5,152,312 at December 31, 2008, payable during 2009.

As of December 31, 2008, the Authority was not obligated to return revenues to the County, other than those described in Note G.

SCHENECTADY METROPLEX DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS December 31, 2008 and 2007

NOTE K - COMMITMENTS AND CONTINGENCIES - Continued

6. *Litigation Claims*

The Authority is involved in an action for alleged breach of contract relating to the development of a property. In management's and counsel's opinion, if the action moves forward the Authority has numerous strong defenses and there is a likelihood the action would be dismissed and it is impossible to predict any final outcome. It is likely that the matter will be resolved in 2009.

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

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

NOTE L - NET ASSETS

The Authority has reported a deficit in its net assets as of December 31, 2008. 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.

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

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

We have audited the financial statements of the Schenectady Metroplex Development Authority (Authority) as of and for the year ended December 31, 2008, and have issued our report thereon dated April 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including compliance with *Investment Guidelines for Public Authorities*, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated April 29, 2009.

This report is intended solely for the information and use of the Board of Directors and management and is not intended to be and should not be used by anyone other than these specified parties.

Bollam Sheedy Torani & Co. LLP

Albany, New York
April 29, 2009