Schenectady Metroplex Development Authority

(A Component Unit of Schenectady County, New York)

Financial Report

December 31, 2017 and 2016

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C O N T E N T S

Independent Auditor's Report

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the Schenectady Metroplex Development Authority (Authority) (a component unit of Schenectady County, New York), as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Schenectady Metroplex Development Authority as of December 31, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 8, and the required supplementary information on pages 34 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

BST & Co. CPAs, LLP

Albany, New York
March 28, 2018

BST
ACCOUNTING / TAX / ADVISORY

The Schenectady Metroplex Development Authority, hereafter referred to as the Authority, is pleased to present its Financial Report for the years ended December 31, 2017 and 2016, developed in compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). We encourage readers to consider the information presented on pages 3 to 8 in conjunction with the Authority's financial statements (presented on pages 9 to 11) to enhance their understanding of the Authority's financial performance.

Responsibility and Controls

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

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

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

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

Audit Assurance

The unmodified (i.e., clean) opinion of our independent external auditors, BST & Co. CPAs, LLP, is included on pages 1 through 2 of this report.

This section presents management's discussion and analysis of the Authority's financial condition and activities for the year ended December 31, 2017. This information should be read in conjunction with the financial statements.

Financial Highlights

The year 2017 marked another very active 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 the results:

- Total operating revenues increased by 8.5% from those of the prior fiscal period, reflecting a strong performance of the local economy. The Authority's sales tax revenues reached $8.89 million, up significantly from the $8.27 million in 2016, which was 0.3% higher than 2015. Management expects revenues to increase moderately in the short term but remain steady over the long term as the local economy continues a more moderate growth pattern over the next several years.

Financial Highlights - Continued

- Total operating expenses increased to $1.22 million in 2017, a 12.3% increase over those of 2016 which had been 10.7% higher than 2015; that are due primarily to legal fees, web site development, staffing changes, and New York State & Local Retirement System costs.
- Financing expenses for 2017 were on pace with 2016 which had been 7.0% lower than 2015. The Authority issued $8,045,000 of Bond Anticipation Notes (BANs) in late 2017 and over $20 million in refunding bonds in 2015. No such financing activities took place in 2016.
- Total assets were $23.7 million at the end of 2017 and represent an increase of 12% from the prior year primarily due to issuance of the BANs. Depletion of bond project funds during 2016 partially explained the 14.8% reduction from the end of 2015.
- Total liabilities increased 7% to $58.9 million due to the issuance of the BANs which was offset by the amortization of the Authority's other long-term debt. Amortization of the long-term debt in 2016 was the primary driver of the 5.6% reduction of liabilities from 2015 to 2016.
- Net project grants and expenditures increased to $7.41 million in 2017 from $5.63 million seen in 2016 and $4.86 million in 2015. Undistributed project commitments approximated $5.04 million at the end of 2017 as compared to $2.93 million and $4.48 million at the end of 2016 and 2015 respectively.

Required Financial Statements

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

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

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

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

The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, 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, 2038, 70% of one half of one percent of all sales and compensating use tax revenue received by Schenectady County, which may be used to support all of its statutorily authorized purposes and powers. The Authority has a limited obligation to return a portion of its sales tax revenues in the event such revenues exceed statutorily prescribed limits, which are a function of the Authority's current liabilities, reserve fund requirements, and anticipated project funding requirements.

Financial Analysis

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

Condensed Statements of Net Position

	December 31,				
	2017	2017 vs. 2016	2016	2016 vs. 2015	2015
ASSETS					
Current assets	$ 14,536,391	54.3%	$ 9,418,768	-22.5%	$ 12,151,086
Capital assets, net	24,130	-9.2%	26,570	-10.6%	29,706
Other assets	9,142,887	-22.0%	11,719,844	-7.5%	12,668,826
Total assets	23,703,408	12.0%	21,165,182	-14.8%	24,849,618
DEFERRED OUTFLOWS, net	1,232,956	-15.6%	1,460,435	3.6%	1,409,805
LIABILITIES					
Current liabilities	4,443,373	-15.8%	5,279,579	-4.6%	5,536,609
Long-term debt	54,465,188	9.4%	49,763,867	-5.7%	52,753,110
Total liabilities	58,908,561	7.0%	55,043,446	-5.6%	58,289,719
DEFERRED INFLOWS, net	18,259	-21.4%	23,245	0.0%	-
NET POSITION					
Investment in capital assets	24,130	-9.2%	26,570	-10.6%	29,706
Restricted	8,571,565	83.6%	4,667,785	-35.1%	7,188,682
Unrestricted	(42,586,151)	14.7%	(37,135,429)	-5.4%	(39,248,684)
Total net position	**$ (33,990,456)**	**4.8%**	**$ (32,441,074)**	**1.3%**	**$ (32,030,296)**

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

	Years Ended December 31,				
	2017	2017 vs. 2016	2016	2016 vs. 2015	2015
Sales tax revenue	$ 8,891,405	7.5%	$ 8,268,508	0.3%	$ 8,242,669
Other operating revenues	189,595	81.8%	104,300	214.4%	33,174
Total operating revenues	9,081,000	8.5%	8,372,808	1.2%	8,275,843
Depreciation	10,179	-4.7%	10,681	-48.8%	20,846
Other operating expenses	1,210,057	12.5%	1,075,688	11.9%	960,877
Total operating expenses	1,220,236	12.3%	1,086,369	10.7%	981,723
Net operating revenues	7,860,764	7.9%	7,286,439	-0.1%	7,294,120
Non operating expenses, net	(1,996,965)	-3.5%	(2,068,538)	-8.0%	(2,248,569)
Increase in net position	5,863,799	12.4%	5,217,901	3.4%	5,045,551
NET POSITION, *beginning of year*	(32,441,074)	1.3%	(32,030,296)	-0.6%	(32,216,923)
Project grants, net of project and grant revenues	(7,413,181)	31.7%	(5,628,679)	15.8%	(4,858,924)
NET POSITION, *end of year*	**$ (33,990,456)**	**4.8%**	**$ (32,441,074)**	**1.3%**	**$ (32,030,296)**

General Trends and Significant Events

During 2017, the pace of the Authority's redevelopment efforts throughout its statutorily-defined service district continued with many of its prior commitments being well underway. Management anticipates that the continuing recovery in the revitalized local economy will create new opportunities in the years ahead. In recognition of the continuing need to pursue such opportunities, in 2016, the County and State legislatures approved amending the Authority's enabling statute to increase its authority to issue bonds to $100 million and extension of the sales tax sunset provision to August 1, 2038.

Financial Condition

The overall financial position of the Authority remained strong at year-end. Current assets at year-end of 2017 were 61% of total assets as compared to 45% in 2016 and 49% in 2015. Total operating expenses in 2017 represented approximately 13.4% of total revenues and were slightly above the 2016 and 2015 levels. Total revenues of over $9.08 million represents a new historical high for the organization and exceeds the $8.37 experienced in 2016 by 8.5%.

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

Results of Operations

Revenue
Total operating revenue for 2017, exclusive of unrealized gain/loss on investments, was $9,081,000 compared to $8,372,808 in 2016 and $8,275,843 in 2015.

Expense
Total operating expenses for the year 2017 were $1,220,236 compared to $1,086,369 in 2016 and $981,723 in 2015.

Long-Term Obligations

As of December 31, 2017, the Authority had $47,825,000 in bonds outstanding related to six separate general resolution bond issues in 2010, 2012, 2014, and 2015. The bonds mature in 2033, 2027, 2033, and 2028 respectively. Principal payments related to these bonds will total $3,110,000 during 2018.

More detailed information about the Authority's long-term obligations is presented in the notes to the financial statements on pages 18 to 21.

Final Comments

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

Final Comments - Continued

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.

There were no new members appointed to the Board in 2017.

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

Name	Board Office	Term Expiration
Ray Gillen	Chair	December 31, 2018
Bradley G. Lewis	Vice Chair	December 31, 2018
Karen Zalewski-Wildzunas	Treasurer	December 31, 2018
Sharon A. Jordan	Secretary	December 31, 2018
Nancy Casso		December 31, 2018
Robert J. Dieterich		December 31, 2018
Todd Edwards		December 31, 2018
Neil M. Golub		December 31, 2018
John Mallozzi		December 31, 2018
Robert J. Mantello		December 31, 2018
Paul Webster		December 31, 2018

Schenectady Metroplex Development Authority

(A Component Unit of Schenectady County, New York)

Statements of Net Position

	December 31, 2017	December 31, 2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents, unrestricted	$ 4,165,018	$ 2,531,291
Cash and cash equivalents, restricted	4,588,321	713,557
Sales tax receivable	3,861,441	3,524,898
Current installments of loans receivable, net	470,684	582,132
Grants receivable	-	675,000
Other receivables	25,008	10,183
Interest receivable	7,835	7,188
Investment reserves, restricted	1,329,148	1,318,170
Prepaid expenses	88,936	56,349
Total current assets	14,536,391	9,418,768
CAPITAL ASSETS, net	24,130	26,570
OTHER ASSETS		
Loans receivable, less current installments, net	6,238,791	8,623,786
Note receivable, net	250,000	250,000
CDBG receivable	-	210,000
Investment reserves, restricted	2,654,096	2,636,058
	9,142,887	11,719,844
Total assets	23,703,408	21,165,182
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	1,115,828	1,243,819
Deferred outflows related to net pension liability	117,128	216,616
Total deferred outflows of resources	1,232,956	1,460,435
TOTAL ASSSETS AND DEFERRED OUTFLOWS OF RESOURCES	**$ 24,936,364**	**$ 22,625,617**
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES		
Current installments of bonds payable	$ 3,110,000	$ 3,040,000
Accounts payable and accrued expenses	314,608	624,567
Accrued interest	776,594	804,439
Due to the County of Schenectady, current portion	57,315	54,853
Grants payable	-	345,716
Unearned revenue	-	319,832
Premium on bonds, net of amortization, current portion	184,856	90,172
Total current liabilities	4,443,373	5,279,579
LONG-TERM DEBT		
Bonds payable, less current installments	44,715,000	47,825,000
Net pension liability	110,567	196,107
Bond anticipation note payable	8,045,000	-
Due to the County of Schenectady, less current portion	646,662	703,977
Premium on bonds, net of amortization, less current portion	947,959	1,038,783
	54,465,188	49,763,867
Total liabilities	58,908,561	55,043,446
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to net pension liability	18,259	23,245
NET POSITION		
Investment in capital assets, net	24,130	26,570
Restricted	8,571,565	4,667,785
Unrestricted deficit	(42,586,151)	(37,135,429)
Total net position	(33,990,456)	(32,441,074)
TOTAL NET POSITION, LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	**$ 24,936,364**	**$ 22,625,617**

See accompanying Notes to Financial Statements.

Schenectady Metroplex Development Authority

(A Component Unit of Schenectady County, New York)

Statements of Revenues, Expenses, and Changes in Net Position

	Years Ended December 31, 2017	2016
OPERATING REVENUES		
Sales tax revenues	$ 8,891,405	$ 8,268,508
Other income	189,595	104,300
	9,081,000	8,372,808
OPERATING EXPENSES		
Payroll	549,259	509,534
Payroll taxes	44,973	42,200
Pension plan	85,239	75,071
Health insurance	55,114	56,963
Other employee benefits	5,648	8,433
Accounting	69,450	66,150
Advertising	14,861	5,750
Automobile	1,079	566
Consulting	6,800	6,600
Depreciation	10,179	10,681
Dues and subscriptions	7,325	4,418
Hosting and travel	3,010	3,247
Insurance	63,667	57,130
Legal	137,806	69,990
Office supplies	11,223	18,613
Postage	870	1,002
Rent	56,517	56,517
Repairs and maintenance	25,732	21,169
Resource data	48,766	49,036
Utilities	22,718	23,299
	1,220,236	1,086,369
Net operating revenues	**7,860,764**	**7,286,439**
NON-OPERATING REVENUES (EXPENSES)		
Investment earnings	125,519	84,437
Interest expense, net	(2,064,984)	(2,149,812)
Bond issuance costs	(74,933)	-
Debt service fees	(9,500)	(10,500)
Miscellaneous income	26,933	7,337
	(1,996,965)	(2,068,538)
Change in net position	**5,863,799**	**5,217,901**
NET POSITION, ***beginning of year***	(32,441,074)	(32,030,296)
Project grants and expenditures, net of project and grant revenues	(7,413,181)	(5,628,679)
NET POSITION, ***end of year***	**$ (33,990,456)**	**$ (32,441,074)**

See accompanying Notes to Financial Statements.

Schenectady Metroplex Development Authority

(A Component Unit of Schenectady County, New York)

Statements of Cash Flows

	Years Ended December 31, 2017	2016
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Cash received from sales tax revenues	$ 9,890,037	$ 8,218,611
Cash received from other sources	189,595	104,300
Cash paid to suppliers and other vendors	(508,059)	(361,379)
Issuance of loans receivable	(6,767)	(347,931)
Repayment of loans receivable	2,240,793	744,653
Cash paid for salaries	(549,259)	(509,534)
Cash paid for employee benefits	(185,326)	(174,234)
	11,071,014	**7,674,486**
CASH FLOWS PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES		
Debt service fees	(9,500)	(10,500)
Bond issuance costs	(74,933)	-
Repayments of bond principal	(3,040,000)	(2,945,000)
Proceeds from issuance of bond anticipation note	8,045,000	-
Repayment of amounts due to the County of Schenectady	(54,853)	(52,495)
Interest paid	(1,998,145)	(2,183,600)
	2,867,569	**(5,191,595)**
CASH FLOWS USED BY CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of office furniture and equipment	**(7,739)**	**(7,545)**
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES		
Change in cash and cash equivalents, restricted	(3,874,764)	2,595,387
Purchase (proceeds) from restricted investment reserves	(29,016)	389,110
Investment earnings received	124,872	80,520
Miscellaneous earnings received	26,933	7,337
Project grants and expenditures paid, net of project and grant revenues received	(8,545,142)	(5,674,855)
	(12,297,117)	**(2,602,501)**
Net increase (decrease) in cash and cash equivalents, unrestricted	**1,633,727**	**(127,155)**
CASH AND CASH EQUIVALENTS, UNRESTRICTED ***beginning of year***	2,531,291	2,658,446
CASH AND CASH EQUIVALENTS, UNRESTRICTED ***end of year***	**$ 4,165,018**	**$ 2,531,291**
RECONCILIATION OF NET OPERATING REVENUES TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating revenues	$ 7,860,764	$ 7,286,439
Adjustments to reconcile net operating revenues to net cash provided (used) by operating activities		
Depreciation	10,179	10,681
Change in loan receivable	2,234,026	396,722
Change in accounts receivable	998,632	(49,897)
Change in prepaid expenses	(32,587)	30,541
	$ 11,071,014	**$ 7,674,486**

See accompanying Notes to Financial Statements.

Note 1 - Organization and Summary of Significant Accounting Policies

a. Organization

On June 30, 1998, the Public Authorities Law and the Executive Law of the State of New York were amended to allow for the establishment of the Schenectady Metroplex Development Authority (Authority) as a public benefit corporation, and to amend the tax law in relation to authorizing additional sales and compensating use taxes in Schenectady County (County). The amended laws (Laws of New York, 1998; Chapter 124, Article 8, Title 28-B) allowed for collection of additional sales and compensating use taxes to begin on September 1, 1998, and to end on August 31, 2033. On May 31, 2016, the amended laws extended the collection of additional sales and compensating use taxes to August 31, 2038. 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 as a component unit of Schenectady County, New York, 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.

b. Basis of Accounting and Financial Statement Presentation

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

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities, and deferred outflows and inflows of resources associated with the operations are included on the statements of net position.

Net position is segregated into restricted and unrestricted components, as follows:

- *Investment in capital assets* consists of capital assets, net of accumulated depreciation.

- *Restricted net position* has external constraints placed on use.

- *Unrestricted net position (deficit)* consists of assets, liabilities, and deferred outflows and inflows that do not meet the definition of “investment in capital assets” or “restricted net position.”

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

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

c. Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred outflows and inflows of resources, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d. Sales Tax Revenues

Pursuant to Subdivision (C) of Section 1210 (C) of the tax law, the County dedicates 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, 2038, and annually deposits such net collections received there from in the Schenectady Metroplex Development Authority Support Fund, held by the County. Beginning January 1, 1999, and then quarterly thereafter, the County transfers 70% of net collections received from the one-half of one percent to the Authority. The remaining 30% is transferred by the County to the Schenectady County real property tax abatement and economic development fund.

e. Cash and Cash Equivalents

Cash and cash equivalents include amounts in short-term investments with a maturity date of three months or less from the date of purchase, whether unrestricted or restricted.

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

Unrestricted and restricted cash are either adequately insured by the Federal Deposit Insurance Corporation or collateralized by securities held by the pledging bank's trust department in the Authority's name or U.S. Government and/or federal agency securities held by the Trustee.

f. Cash and Cash Equivalents, Restricted

At December 31, 2017 and 2016, restricted cash and cash equivalents consisted of escrow deposits held on account of others for the payment of future obligations and funds held from the issuance of the 2014 general resolution bonds.

For the purposes of reporting cash flows, restricted cash and cash equivalents are treated as an investment.

g. Investment Reserves

For the periods ended December 31, 2017 and 2016, the Authority's investments are composed of mutual funds, money market funds and cash. To mitigate custodial credit risk, all of the Authority's investments are held in its own name. The purpose of these investment reserves is described in Note 7.

For the purposes of reporting cash flows, investment reserves are treated as an investing activity.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

h. Receivables

Accounts receivable consists of amounts due from the County from the sales and compensating use tax collections plus interest thereon and amounts due from other entities. Receivables of $3,861,441 and $3,524,898, based in part on estimates by management, are being held by the County in the Schenectady Metroplex Development Authority Support Fund but have not yet been transferred to the Authority as of December 31, 2017 and 2016, respectively.

Loans and notes receivable are carried at the original loan amount less payments of principal received and an allowance for estimated uncollectible balances. Accrued interest income is reported for loan interest earned but not received at year-end. As of December 31, 2017 and 2016, the Authority has an allowance of $3,237,962 and $3,275,545, respectively, for loans and notes receivable.

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

In addition, at times the Authority may receive grants from outside parties. Grants receivable totaling $675,000 at December 31, 2016 were from National Grid and were received during 2017. There were no grants receivable at December 31, 2017.

During 2013, the Authority was assigned cash and Community Development Block Grant (CDBG) receivables from the Schenectady Local Development Corporation (SLDC). The amounts received were recorded to unearned revenue. During 2017, upon attaining certain employment and reporting requirements as stipulated in the agreement with SLDC, a $210,000 CDBG receivable was forgiven by the Authority. In addition, during 2017, the remaining cash assigned from SLDC was provided to a commercial entity as a project grant and expenditure.

i. Capital Assets

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

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. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease with amortization being included in depreciation expense. The estimated useful life for office furniture and equipment, and leasehold improvements is five years.

The Authority evaluated prominent events or changes in circumstances affecting capital assets to determine if impairment of any capital assets has occurred. A capital asset is considered impaired if both (a) the decline in service utility of the capital asset is large in magnitude and (b) the event or change in circumstance is outside the normal life cycle of the capital asset. There were no impaired capital assets at December 31, 2017 and 2016.

Note 1 - Organization and Summary of Significant Accounting Policies - Continued

j. Tax Status

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

k. New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units* (GASB No. 80). GASB No. 80 provides clarity on how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The adoption of this accounting standard did not impact the Authority's financial statements.

l. Parking Operations

In prior years, the Authority participated in projects to enhance parking opportunities within the City of Schenectady, New York (City). The projects consisted of various City-owned lots and garages, some of which required significant renovations. The City became unable to provide sufficient resources for the capital improvements and maintenance costs associated with the projects and transferred title of several parking lots and a garage to the Authority in 2004. The Authority has and continues to operate the projects at a net loss as part of its revitalization mission. Accordingly, the parking rates charged by the Authority are not designed to recoup operating costs or fund future capital projects. The Authority's ability to dispose of the projects is restricted due to discounted multi-year parking arrangements with the State of New York and other organizations. Due to the financial constraints and the Authority's intent to manage the projects as an economic incentive activity rather than an operational enterprise activity, project costs are expensed as incurred.

m. Deferred Outflows of Resources and Deferred Inflows of Resources

The Authority reports deferred outflows of resources and deferred inflows of resources on its statement of net position in connection with the changes in the net pension liability that will be amortized into pension expense over time, as further described in Note 13. The Authority also reports deferred outflows of resources for deferred loss on a bond refunding, as further described in Note 6.

n. Pensions

The Authority is a participating employer of the New York State and Local Retirement System (System). Employees in permanent positions are required to enroll in the System, and employees in part-time or seasonal positions have the option of enrolling in the System. The System is a cost sharing, multiple employer, public employee defined benefit retirement system. The impact on the Authority's financial position and results of operations due to its participation in the System is more fully described in Note 14.

o. Subsequent Events

The Authority has evaluated subsequent events for potential recognition or disclosure through March 28, 2018, the date the financial statements were available to be issued.

Note 2 - Loans Receivable

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

	December 31, 2017	December 31, 2016
Loans receivable (a) (b)	$ 9,947,437	$ 12,481,463
Less allowance	3,237,962	3,275,545
Less current installments	470,684	582,132
Loans receivable, less current installments, net	$ 6,238,791	$ 8,623,786

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

(b) The loans include terms which vary with each loan. Maturity periods vary up to a maximum of 20 years. The latest maturity date is December 2033. Interest rates vary from 0% to 5%. Required monthly payments range from $580 to $8,772.

A summary of changes in loans receivable during the year ended December 31, 2017 is as follows:

Loans receivable, January 1, 2017	$ 12,481,463
Loans advanced	6,767
Less: loans written off	(300,000)
Less: principal repayments	(2,240,793)
Loans receivable, December 31, 2017	$ 9,947,437

A summary of changes in loans receivable during the year ended December 31, 2016 is as follows:

Loans receivable, January 1, 2016	$ 12,878,185
Loans advanced	347,931
Less: principal repayments	(744,653)
Loans receivable, December 31, 2016	$ 12,481,463

Interest earnings on loans receivable were $93,848 and $61,602 for the years ended December 31, 2017 and 2016, respectively, and are included in investment earnings within these financial statements.

Note 3 - Note Receivable

a. 426 State Street Associates, LLC

During July 2006, the Authority sold real property to 426 State Street Associates, LLC for $200,000. During 2017, the borrower restructured the terms of the note receivable and other certain loan receivables due to the Authority. Pursuant to the agreement, the $200,000 note receivable, which had previously been fully reserved, was forgiven in May 2017.

b. Bombers Real Estate, LLC

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

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

	December 31, 2017	December 31, 2016
426 State Street Associates, LLC	$ -	$ 200,000
Bombers Real Estate, LLC	250,000	250,000
	250,000	450,000
Less allowance	-	200,000
Notes receivable, net	$ 250,000	$ 250,000

Note 4 - Capital Assets

Capital assets are summarized as follows:

	January 1, 2017	Additions	Dispositions	December 31, 2017
Office furniture and equipment	$ 140,790	$ 7,739	$ -	$ 148,529
Leasehold improvements	18,365	-	(15,351)	3,014
	159,155	7,739	(15,351)	151,543
Accumulated depreciation	(132,585)	(10,179)	15,351	(127,413)
	$ 26,570	$ (2,440)	$ -	$ 24,130

	January 1, 2016	Additions	Dispositions	December 31, 2016
Office furniture and equipment	$ 133,245	$ 7,545	$ -	$ 140,790
Leasehold improvements	18,365	-	-	18,365
	151,610	7,545	-	159,155
Accumulated depreciation	(121,904)	(10,681)	-	(132,585)
	$ 29,706	$ (3,136)	$ -	$ 26,570

Note 5 - Deferred Outflows, Net, on Bond Refunding

During 2012, the Authority issued $13,240,000 of General Resolution Refunding Bonds, Series 2012, to defease the General Resolution Bonds 2001A and the General Resolution Bonds, 2004A. The Authority's deposit into the Refunding Escrow account exceeded the net carrying value of the refunded bonds. This excess resulted in deferred outflows. The deferred outflows are being amortized using the straight-line method, which approximates the effective interest method, over the remaining life of the defeased bonds.

During 2015, the Authority issued $20,380,000 of General Resolution Refunding Bonds, Series 2015, to defease the General Resolution Bonds 2005A and 2005B and the General Resolution Bonds, 2006. The Authority's deposit into the Refunding Escrow account exceeded the net carrying value of the refunded bonds. This excess resulted in deferred outflows. The deferred outflows are being amortized using the straight-line method, which approximates the effective interest method, over the remaining life of the defeased bonds.

Future amortization of deferred outflows is summarized as follows:

For the year ending December 31,		
2018	$	128,005
2019		128,005
2020		128,005
2021		128,005
2022		128,005
2023 through 2027		475,803
	$	1,115,828

Note 6 - Bond Anticipation Notes Payable

During December 2017, the Authority issued a $6,340,000 Bond Anticipation Note, Series 2017A, and a $1,705,000 Bond Anticipation Note, Series 2017B. The Series 2017A and Series 2017B Bond Anticipation Notes were issued at a premium of $94,359 and will mature on December 28, 2018 at an interest rate of 3%. It is anticipated that the Bond Anticipation Notes will be refinanced with the issuance of long-term bonds.

Note 7 - Bonds Payable, Net

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 included 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 fixed rates ranging from 5.15% to 6.62%. All but $190,000 of these General Resolution Bonds, 2005B were defeased in 2015 with the General Resolution Refunding Serial Bonds issued in May 2015. The remaining bond payable was fully paid in August 2016.

Note 7 - 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 included 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. All but $445,000 of these General Resolution Bonds, 2006A were defeased in 2015 with the General Resolution Refunding Serial Bonds issued in May 2015. The remaining bond payable at was fully paid in August 2016.

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

During August 2012, the Authority issued $13,240,000 of General Resolution Refunding Bonds to provide resources to purchase U.S. Government, state, and local government series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of $13,610,000 of the 2001A and 2004A General Resolution Bonds. The General Resolution Bonds, 2001A were fully redeemed in 2012 and the General Resolution Bonds, 2004A were fully redeemed in 2013. This advance refunding was undertaken to reduce total debt service payments by $491,973 with an estimated present value savings of $844,244. The 2012 bonds were issued at a premium of $967,200, which is amortized over the life of the bonds on a straight-line basis, which approximates the effective interest method. Amortization of the premium began in 2012. Accumulated amortization expense was $338,520 and $274,040 at December 31, 2017 and 2016, respectively. The terms of the 2012 bonds include interest at rates ranging from 3.00% to 5.00% during the life of the bonds, payable March 15 and September 15 of each year. The bonds include annual principal payments ranging from $290,000 to $1,125,000 and mature September 15, 2027.

During January 2014, the Authority issued $10,030,000 of General Resolution Bonds, Series 2014A, and $7,440,000 of General Resolution Bonds, Series 2014B, to fund certain commercial real estate developments within the Authority's service district approved by the Authority's Board of Directors and refund Bond Anticipation Notes outstanding. The terms of the 2014A bonds include interest at rates ranging from 3.50% to 5.00% during the life of the bonds, payable on February 1 and August 1 of each year. The 2014 bonds were issued at a premium of $513,848, which is amortized over the life of the bonds on a straight-line basis, which approximates the effective interest method. Amortization of the premium began in 2014. Accumulated amortization expense was $104,072 and $78,054 at December 31, 2017 and 2016, respectively. The terms of the 2014B bonds include interest at rates ranging from 0.979% to 4.588% during the life of the bonds, payable on February 1 and August 1 of each year. The bonds include annual principal payments ranging from $100,000 to $1,335,000 and mature on August 1, 2033.

Note 7 - Bonds Payable, Net - Continued

During May 2015, the Authority issued $20,380,000 of General Resolution Refunding Bonds to provide resources to purchase U.S. Government, state, and local government series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payments of $19,250,000 of the 2005A, 2005B, and 2006 General Resolution Bonds. The General Resolution Bonds, 2005A were fully redeemed in 2015. The remaining $635,000 of the General Resolution Bonds, 2005B and 2006A were fully redeemed in 2016. This advance refunding was undertaken to reduce total debt service payments by $2,477,146, with an estimated present value of savings of $1,935,889. The terms of the 2015 bonds include interest at rates ranging from 0.45% to 3.934% during the life of the bonds, payable February 1 and August 1 of each year. The bonds include annual principal payments ranging from $710,000 to $1,880,000 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 the Authority's bonds payable is as follows:

	December 31,	
	2017	2016
General Resolution Bonds, Series 2010A	$ 815,000	$ 850,000
General Resolution Bonds, Series 2010B	4,375,000	4,540,000
General Resolution Refunding Bonds, Series 2012	9,555,000	10,315,000
General Resolution Bonds, Series 2014A	10,030,000	10,030,000
General Resolution Bonds, Series 2014B	5,395,000	6,085,000
General Resolution Refunding Bonds, Series 2015	17,655,000	19,045,000
Bonds payable, end of year	$ 47,825,000	$ 50,865,000

A summary of bond transactions is as follows:

	December 31,	
	2017	2016
Bonds payable, *beginning of year*	$ 50,865,000	$ 53,810,000
Principal payments	(3,040,000)	(2,945,000)
Bonds payable, *end of year*	$ 47,825,000	$ 50,865,000

Note 7 - Bonds Payable, Net - Continued

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

	Principal	Interest, Net of Amortization of Bond Premium	Total
For the year ending December 31,			
2018	$ 3,110,000	$ 1,947,620	$ 5,057,620
2019	3,190,000	1,861,753	5,051,753
2020	3,285,000	1,772,558	5,057,558
2021	3,410,000	1,655,335	5,065,335
2022	3,525,000	1,524,792	5,049,792
2023 through 2027	19,830,000	5,409,464	25,239,464
2028 through 2032	9,640,000	1,969,725	11,609,725
2033	1,835,000	106,037	1,941,037
	$ 47,825,000	$ 16,247,284	$ 64,072,284

Interest expense, net of amortization of bond premium for the years ended December 31, 2017 and 2016 was $2,031,836 and $2,114,267, respectively. Interest paid during the years ended December 31, 2017 and 2016 totaled $2,058,722 and $2,147,168, respectively.

As required by the bond documents, the Authority is required to establish and maintain certain reserves for the benefit of the bondholders. Reserves reported within the Debt Service Fund are maintained for debt service payments during the upcoming year, while reserves reported within the Debt Service Reserve Fund are maintained for periods extending beyond one year. These reserves are held in trust by M&T Investment Group and are reported at fair value as follows:

	December 31,	
	2017	2016
Investment reserves, restricted		
Debt Service Reserve Fund	$ 2,654,096	$ 2,636,058
Debt Service Fund	1,329,148	1,318,170
	$ 3,983,244	$ 3,954,228

Reserves are composed of the following:

	December 31,	
	2017	2016
Investment reserves, restricted		
Mutual funds	$ 3,983,244	$ 3,954,228

Note 8 - Fair Value Measurements

The framework for measuring fair value includes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of inputs that may be used to measure fair value are as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Authority has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted process that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset.

Level 3 Inputs to the valuation methodology are unobservable inputs and significant to the fair value measurement.

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for assets measured at fair value at December 31, 2017 and 2016.

Mutual Funds: Valued at the daily closing price as reported by the fund. Mutual funds held by the Authority are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Authority are deemed to be actively traded.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Authority believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 8 - Fair Value Measurements - Continued

The following tables set forth by level within the fair value hierarchy, the major categories of the Authority's investments measured at fair value:

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 3,983,244	$ -	$ -	$ 3,983,244

	December 31, 2016			
	Level 1	Level 2	Level 3	Total
Mutual Funds	$ 3,954,228	$ -	$ -	$ 3,954,228

Note 9 - Due to the County of Schenectady

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 agreement expires in 2027.

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

	Principal	Interest	Total
For the year ending December 31,			
2018	$ 57,315	$ 31,609	$ 88,924
2019	59,889	29,035	88,924
2020	62,578	26,346	88,924
2021	65,388	23,536	88,924
2022	68,324	20,600	88,924
2023 through 2027	390,483	74,737	465,220
	$ 703,977	$ 205,863	$ 909,840

Interest expense for the years ended December 31, 2017 and 2016 was $33,148 and $35,545, respectively. Interest paid during the years ended December 31, 2017 and 2016 totaled $34,107 and $36,432, respectively.

Note 10 - Grants Payable

Grants payable are summarized as follows:

	December 31, 2016
Curry Road Development Partners, LLC	$ 140,114
Maxon ALCO Holdings, LLC	125,000
Legere Center, LLC	60,000
Café Dialogue, LLC	14,000
Downtown Schenectady Improvement Corp.	6,602
	$ 345,716

Note 11 - Project Grants and Commitments

Project grants distributed and expenditures incurred, net of project and grant revenues, during the years ended December 31, 2017 and 2016, and unspent project commitments at December 31, 2017 were as follows:

	Project Grants and Expenditures 2017	Unspent Project Commitments at December 31, 2017	Project Grants and Expenditures 2016
AAA Northway Rental Subsidy	$ 6,000	$ 6,000	$ -
Adirondack Beverages	41,081	-	-
Airport Technology Park Infrastructure	-	-	58,445
Albany Distillery Project	-	-	10,000
ALCO Heritage Trail	72,782	802,218	-
Amtrak Station Project	8,163	40,577	2,877
2 Argyle Place	9,797	11,203	-
Automated Dynamics	-	-	60,315
Beekman 1802	36,000	4,077	33,923
Broadway Apartments	25,500	-	12,785
Broadway Commerce Park	48,500	-	-
242 Broadway	-	-	30,079
Bruno Associates Glenville	1,598	53,402	-
C2 Architecture Design Group	203	4,797	-
Capoccia Wine Lounge	-	-	38,000
Copper Keg ReUse	6,000	9,252	26,748
County Business Parks/Smart Growth Initiative	-	-	397,170
CTDI Expansion	10,262	4,738	-
Darn Good Yarn	-	-	16,000
Downtown Above Ground Infrastructure	39,362	-	965,117
Downtown Ambassador Program	96,000	-	76,553
Downtown Designs	-	-	5,000
Downtown Special Assessment District	168,094	6,906	176,887
Draper Lofts Project	24,000	40,640	135,360

Schenectady Metroplex Development Authority
(A Component Unit of Schenectady County, New York)

Notes to Financial Statements
December 31, 2017 and 2016

Note 11 - Project Grants and Commitments - Continued

	Project Grants and Expenditures 2017	Unspent Project Commitments at December 31, 2017	Project Grants and Expenditures 2016
803 Eastern Avenue	850	-	-
820 Eastern Avenue	-	-	7,750
820 Eastern Avenue Lighting	8,000	-	-
823 Eastern Avenue Façade	-	45,410	39,500
839 Eastern Avenue	-	16,591	6,319
Electric City Innovation Center	-	-	63,653
Environment One Expansion	788	-	-
Foster Building	-	-	203,233
Foster Renovation Phase 2	325,382	24,618	-
Furlocity Relocation	-	-	45,540
Garage Lighting & Improvements	-	-	292,321
Gateway Park	670,676	36,276	7,048
General Electric Building	1,366	-	2,434
Glenville Rail Project	90,227	-	248
Glenwyck Manor Housing Project	-	-	20,756
Harbor Center Office Building	23,294	5,000	27,258
Hillside View	-	174,545	7,165
Hillside View Housing	18,290	-	75,000
ICPD Relocation	-	-	95,923
JMR Development Company Project	175,428	-	1,305
L&M Motel Demolition	220,133	4,867	-
Live In Schenectady	7,204	117,796	-
Lofts at Union Square	-	-	92,000
Lower State Street Revitalization	91,000	-	74,639
Lower State Street Sidewalk	336,074	53,926	-
Lower Union Streetscape	-	-	482,974
Courtyard by Marriott	-	-	34,865
Marty's True Value Hardware	15,145	-	-
Mazzone Hospitality	-	-	11,150
Mill Artisan District	532,409	792,591	-
MiSci Parking Lot	-	92,000	-
Mohawk Avenue Barer Shop	-	-	3,380
Mohawk Harbor Site Preparation	375,000	-	375,000
Mohawk Harbor Townhouse Project	2,577	17,423	-
Mop & Bucket	-	-	60,014
New York Biz Lab Façade	-	-	62,877
New York State Arboretum at Mohawk Harbor	13,750	54,612	51,638
Nott Apartments	83,428	416,572	-
219 Nott Terrace	2,670	-	86,195
487 Nott Street Redevelopment	3,777	121,223	-
2017 Parking Infrastructure Improvements	256,970	407,480	37,414
Parking Program	1,577,631	-	1,481,806
Parking Remediation	127,447	-	2,211
Proctor's Theatre Third Floor Renovation	300,855	-	-

Note 11 - Project Grants and Commitments - Continued

	Project Grants and Expenditures 2017	Unspent Project Commitments at December 31, 2017	Project Grants and Expenditures 2016
Quirky, Inc.	-	-	46,180
Raw Juice & Smoothie Bar	3,500	-	-
REVA Air Ambulance	-	-	37,273
Residences at Vista Square	14,747	135,253	-
Restore New York 2017 Program	9,264	1,010,736	-
4-6 River Street	25,000	-	-
Riverside Farms	126,125	-	-
Robinson Block Redevelopment	571,486	119,987	600,610
Rotterdam Corporate Park Warehouse	1,649	-	360
Schenectady Armory Improvement	30,225	-	63,487
Schenectady Civic Players Renovation	30,472	34,528	-
Schenectady County Visitors Agency	-	-	60,000
Scotia Naval Depot	182,834	1,217,166	-
Sprinkleista Bakery	-	-	11,650
3 State Street	225	124,775	-
13 State Street Purchase (YMCA)	-	-	67,736
State Street Bridge Lighting	18,667	71,333	-
302 State Street Renovation	1,328	672	-
400 State Street Cinema	250,000	-	250,000
426 State Street	50,000	-	-
STS Steel	-	-	20,655
Thai Thai Bistro Relocation	15,000	-	-
Town of Duanesburgh Sewer	360	160,640	-
Union College Safety	28,634	-	-
508 Union Street	60,877	8,515	608
108 Union Street Façade	75,720	-	495
410-412 Union Street	30,000	-	30,450
601-605 Union Street	27,075	3,925	-
1775 Van Franken Avenue	10,000	-	-
Viaport Rotterdam	1,001,984	-	-
Villa Italia	38,335	-	-
Professional services and predevelopment costs (a)	592,729	-	746,886
	9,049,949	$ 6,252,270 (b)	7,733,265
Project and grant revenue	(1,636,768)		(2,104,586)
	$ 7,413,181		$ 5,628,679

(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.

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

From inception through December 31, 2017, the Authority has approved project grants, expenditures, and loans totaling $190,842,379, of which $185,805,109 has been distributed.

Note 12 - Net Position

The Authority has reported a deficit in its net position as of December 31, 2017 and 2016. 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 sales tax revenues to ensure full repayment of existing obligations, and the Authority has established conservative guidelines under its General Bond Resolution that preclude further borrowings unless repayment capacity can be demonstrated.

Note 13 - New York State and Local Employees' Retirement System

a. Plan Description

The Authority participates in the System, a cost-sharing multiple-employer retirement system. The System provides retirement benefits as well as death and disability benefits. The net position of the System is held in the New York State Common Retirement Fund (Fund), which was established to hold all net assets and record changes in plan net position allocated to the System. The Comptroller of the State of New York (Comptroller) serves as the trustee of the Fund and is the administrative head of the System. The Comptroller is an elected official determined in a direct state-wide election and serves a four-year term. System benefits are established under the provisions of the New York State Retirement and Social Security Law (RSSL). Once a public employer elects to participate in the System, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship, and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

The System is included in the State's financial report as a pension trust fund. That report, including information with regard to benefits provided, may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, New York 12244.

b. Contributions

Employees in Tier I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, Tier V employees who contributions 3% of their salary, and Tier VI employees who contribute between 3% and 6% of their salary. The Comptroller annually certifies the rates, expressed as proportions of payroll of members, which are used in computing the contributions required to be made by employers. The Authority's contributions for the preceding ten years can be found in the schedule of local government pension contributions on page 35.

c. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2017 and 2016, the Authority reported a liability of $110,567 and $196,107, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of March 31, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined.

At December 31, 2017 and 2016, the Authority's proportion was 0.0011767% and 0.0012218%, respectively.

Note 13 - New York State and Local Employees' Retirement System - Continued

c. *Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* - Continued

For the years ended December 31, 2017 and 2016, the Authority recognized pension expense of $81,804 and $83,641, respectively. At December 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2017		December 31, 2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,771	$ 16,790	$ 991	$ 23,245
Changes in assumptions	37,774	-	52,296	-
Net differences between projected and actual investment earnings on pension plan investments	22,085	-	116,342	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	54,498	1,469	46,987	-
Total	$ 117,128	$ 18,259	$ 216,616	$ 23,245

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ending December 31,	
2018	$ 39,397
2019	39,397
2020	30,014
2021	(9,939)
	$ 98,869

d. *Actuarial Assumptions*

The total pension liability at March 31, 2017 and 2016 was determined by using an actuarial valuation as of April 1, 2016 and 2015, respectively, with updated procedures used to roll forward the total pension liability to March 31, 2017 and 2016. The actuarial valuation used the following actuarial assumptions, which were the same for each year:

Actuarial Cost Method	Entry age normal
Inflation Rate	2.50%
Salary Scale	3.80%, indexed by service
Investment Rate of Return, Including Inflation	7.00%
Cost of Living Adjustment	1.30%
Decrement	Based on FY 2011 - 2015 experience
Mortality improvement	System Experience and Society of Actuaries Scale MP-2014

Note 13 - New York State and Local Employees' Retirement System - Continued

d. Actuarial Assumptions - Continued

The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

e. Investment Asset Allocation

Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of the applicable valuation dates are summarized as follows:

Asset Type	Target Allocation	Long-Term Expected Real Rate
Domestic equity	36.00%	4.55%
International equity	14.00%	6.35%
Private equity	10.00%	7.75%
Real estate	10.00%	5.80%
Absolute return strategies	2.00%	4.00%
Opportunistic portfolio	3.00%	5.89%
Real assets	3.00%	5.54%
Bonds and mortgages	17.00%	1.31%
Cash	1.00%	-0.25%
Inflation-Indexed bonds	4.00%	1.50%
	100.00%	

f. Discount Rate

The discount rate projection of cash flows assumed that contributions from members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's proportionate share of the net pension liability as of December 31, 2017 calculated using the discount rate of 7.0%, as well as what the Authority's proportionate share of the net pension liability or asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

Note 13 - New York State and Local Employees' Retirement System - Continued

g. *Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption* - Continued

	1% Decrease (6.0%)	Current Discount (7.0%)	1% Increase (8.0%)
Authority's proportionate share of the net pension liability (asset)	$ 353,129	$ 110,567	$ (94,519)

h. *Pension Plan Fiduciary Net Position*

The components of the current-year net pension liability of the New York State and Local Employees' Retirement System as of March 31, 2017 and 2016 were as follows (amounts in thousands):

	March 31, 2017	March 31, 2016
Employers' total pension liability	$ 177,400,586	$ 172,303,544
Plan net position	(168,004,363)	(156,253,265)
Employers' net pension liability	$ 9,396,223	$ 16,050,279
Ratio of plan net position to the employers' total pension liability	94.70%	90.68%

Note 14 - Commitments, Contingencies, Risks, and Uncertainties

a. *Bonds and Notes*

The Authority has the ability to issue bonds, notes, or other obligations to pay for the cost of any project. As more fully described in the Act, the principal amount of such outstanding obligations may not exceed $100,000,000. At December 31, 2017, the Authority had issued a total of $73,805,000 in bonds. There were $47,825,000 and $50,865,000 of outstanding obligations, related to its General Resolution Bonds described in Note 7 at December 31, 2017 and 2016, respectively.

b. *Leases*

During December 2015, the Authority entered into a five-year lease agreement for its office space. Monthly payments range from $4,710 per month to $4,773 per month over the lease term.

Total rent expense was $56,517 for both of the years ended December 31, 2017 and 2016.

Note 14 - Commitments, Contingencies, Risks, and Uncertainties - Continued

b. Leases - Continued

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

For the year ending December 31,		
2018	$	56,518
2019		57,281
2020		57,281
	$	171,080

c. 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.

d. 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 must return to the County 75% of such surplus amount.

During the years ended December 31, 2017 and 2016, the Authority recognized sales tax revenues of $8,891,405 and $8,268,508, respectively. As of December 31, 2017 and 2016, the Authority had outstanding project and loan commitments totaling $5,037,270 and $2,925,048, respectively, which the Authority has authorized to be distributed in the next fiscal year. The Authority also had current liabilities of $5,658,373 and $5,279,579 at December 31, 2017 and 2016, respectively, payable during 2018 and 2017.

As of December 31, 2017, the Authority was not obligated to return revenues to the County, other than those described in Note 9.

e. 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. Management and counsel are unable to predict any final outcome.

The Authority is involved in several claims from outside parties. Either no formal action has commenced as a result of these claims or they are in the discovery stage, and the claims are being reviewed by management and counsel for merit. As a result, management and counsel cannot render an opinion on the merits of the claims or their potential effects, if any, on the financial position of the Authority as of the date of this report. However remote, if any damages were ultimately awarded to plaintiffs that are attributed to the Authority, those damages would be covered by the Authority's insurance policies.

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

Note 14 - Commitments, Contingencies, Risks, and Uncertainties - Continued

f. Environmental Risks

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

g. Custodial Credit Risk

Investment reserves are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held either by (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name. All of the Authority's investments are held under its name with the trustee.

h. Real Property Purchase and Sale Agreements

During December 2017, the Authority entered into an agreement to purchase certain real property located in the Town of Glenville, New York. The purchase amount is $1,350,000.

Contingent upon the purchase, the Authority has agreed to sell the related property to a commercial entity for $1,350,000. Both the purchase and subsequent sale of this property are expected to be executed during 2018.

Note 15 - Accounting Pronouncements Issued But Not Yet Implemented

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB No. 75). GASB No. 75 establishes financial reporting standards for other postemployment benefits (OPEB) plans for state and local governments. GASB No. 75 replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* as amended. GASB No. 75 establishes standards for recognizing and measuring liabilities, deferred inflows and outflows of resources, and expense/expenditures, as well as identifying the methods and assumptions required to project benefit payments, discount projected benefit payments, to their actuarial present value, and attribute that present value to periods of employee service. Additionally, GASB No. 75 identifies requirements for additional note disclosures and required supplementary information. These requirements are effective for fiscal years beginning after June 15, 2017.

Note 15 - Accounting Pronouncements Issued But Not Yet Implemented - Continued

GASB Statement No 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73* (GASB No. 82). GASB No. 82 addresses practice issues raised during implementation of GASB Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting for Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within The Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, GASB No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of GASB 82 are effective for reporting periods beginning after June 15, 2016, except for the requirements of GASB 82 for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end, which are effective for reporting periods beginning after March 31, 2018.

GASB Statement No. 83, *Certain Asset Retirement Obligations* (GASB No. 83). GASB No. 83 establishes criteria for determining the timing and pattern of recognition for a liability and corresponding deferred outflow of resources for asset retirement obligations. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in GASB No. 83. The requirements of GASB 83 are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84, *Fiduciary Activities* (GASB No. 84). GASB No. 84 establishes criteria for identifying fiduciary activities of all statement and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of GASB No. 84 are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87, *Leases* (GASB No. 87). GASB No. 87 requires recognition of certain lease assets and liabilities that previously were classified as operating leases and the recognition of inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GABS No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB No. 87 are effective for reporting periods beginning after December 15, 2019.

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

Schenectady Metroplex Development Authority

(A Component Unit of Schenectady County, New York)

Required Supplementary Information - Schedule of the Local Government's Proportionate Share of the Net Pension Liability

	2017	2016	2015
Authority's proportion of the net pension liability	0.0011767%	0.0012218%	0.0121940%
Authority's proportionate share of the net pension liability	$ 110,567	$ 196,107	$ 41,194
Authority's covered-employee payroll	$ 513,214	$ 476,888	$ 464,911
Authority's proportionate share of the net pension liability as a percentage of its covered-employee payroll	21.54%	41.12%	8.86%
Plan fiduciary net position as a percentage of the total pension liability	94.70%	90.70%	97.95%

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

See Independent Auditor's Report.

Schenectady Metroplex Development Authority
(A Component Unit of Schenectady County, New York)

Required Supplementary Information
Schedule of Local Government Pension Contributions
Years Ended December 31

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	$ 76,770	$ 72,842	$ 84,368	$ 96,359	$ 87,189	$ 73,965	$ 59,985	$ 45,878	$ 28,177	$ 32,100
Contributions in relation to the contractually required contribution	76,770	72,842	84,368	96,359	87,189	73,965	59,985	45,878	28,177	32,100
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-	-
Authority's covered-employee payroll	513,214	476,888	464,911	464,775	392,040	386,265	387,165	405,800	401,415	377,983
Contributions as a percentage of covered-employee payroll	14.96%	15.27%	18.15%	20.73%	22.24%	19.15%	15.49%	11.31%	7.02%	8.49%

See Independent Auditor's Report.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Directors
Schenectady Metroplex Development Authority
Schenectady, New York

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the Schenectady Metroplex Development Authority (Authority) (a component unit of Schenectady County, New York), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including *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 matter that is required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

BST & Co. CPAs, LLP

Albany, New York
March 28, 2018