



FORT SCHUYLER MANAGEMENT CORPORATION

Consolidated Financial Statements

June 30, 2018

(With Independent Auditors' Report Thereon)

FORT SCHUYLER MANAGEMENT CORPORATION

Consolidated Financial Statements

June 30, 2018

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

The Board of Directors
Fort Schuyler Management Corporation:

We have audited the accompanying consolidated financial statements of Fort Schuyler Management Corporation, which comprise the balance sheet as of June 30, 2018 and the related statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Fort Schuyler Management Corporation as of June 30, 2018, and the results of its activities, and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.



Emphasis of Matter

Related Party Transactions

As discussed in notes 1 and 4 to the accompanying consolidated financial statements, the Corporation has had significant transactions with related parties. Whether the terms of these transactions would have been the same had they been between unrelated parties cannot be determined. Our opinion is not modified with respect to this matter.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental information included on page 17 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements as a whole.

KPMG LLP

Albany, New York
September 20, 2019

FORT SCHUYLER MANAGEMENT CORPORATION

Consolidated Balance Sheet

June 30, 2018

Assets

Cash	\$ 1,984,379
Due from member	44,092
Grant receivable	452,968
Rent and deferred rent receivable	<u>3,270,929</u>
	5,752,368
Assets limited as to use:	
Under grant agreements	112,676,781
By debt agreements	<u>1,266,104</u>
	113,942,885
Interest rate swap	905,973
Land, buildings and equipment, net (notes 3 and 5)	<u>94,827,914</u>
Total assets	<u>\$ 215,429,140</u>

Liabilities and Net Assets

Liabilities:	
Construction and other expenses payable	\$ 37,452,807
Deferred rental revenue	1,050,432
Loan agreements payable	<u>46,766,355</u>
Total liabilities	<u>85,269,594</u>
Commitments and contingencies (notes 4, 5, 6, and 10)	
Net assets:	
Unrestricted	54,002,503
Temporarily restricted	<u>76,157,043</u>
Total net assets	<u>130,159,546</u>
Total liabilities and net assets	<u>\$ 215,429,140</u>

See accompanying notes to consolidated financial statements.

FORT SCHUYLER MANAGEMENT CORPORATION

Consolidated Statement of Activities

Year ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily restricted</u>	<u>Total</u>
Support and revenue:			
Rental income and other support	\$ 5,585,317	—	5,585,317
Grant and other contributions	6,000,000	45,208,842	51,208,842
Net assets released from restrictions	<u>130,491,666</u>	<u>(130,491,666)</u>	<u>—</u>
Total support and revenue	<u>142,076,983</u>	<u>(85,282,824)</u>	<u>56,794,159</u>
Expenses:			
Contracted services	463,888	—	463,888
Utilities, repairs and maintenance	2,188,732	—	2,188,732
Rent	2,099,943	—	2,099,943
Insurance and other	314,163	—	314,163
Professional fees	1,740,061	—	1,740,061
Interest	1,908,972	—	1,908,972
Depreciation and amortization	17,642,887	—	17,642,887
Economic development project costs (notes 3 and 5)	117,509,364	—	117,509,364
Transfers to the Research Foundation for The State University of New York	<u>276,235</u>	<u>—</u>	<u>276,235</u>
Total expenses and transfers	<u>144,144,245</u>	<u>—</u>	<u>144,144,245</u>
Decrease in net assets, before other changes in net assets	(2,067,262)	(85,282,824)	(87,350,086)
Other changes in net assets:			
Change in fair value of interest rate swaps	<u>859,510</u>	<u>—</u>	<u>859,510</u>
Change in net assets	(1,207,752)	(85,282,824)	(86,490,576)
Net assets, beginning of year	<u>55,210,255</u>	<u>161,439,867</u>	<u>216,650,122</u>
Net assets, end of year	<u>\$ 54,002,503</u>	<u>76,157,043</u>	<u>130,159,546</u>

See accompanying notes to consolidated financial statements.

FORT SCHUYLER MANAGEMENT CORPORATION

Consolidated Statement of Cash Flows

Year ended June 30, 2018

Operating activities:	
Change in net assets	\$ (86,490,576)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Grants restricted to long-term capital investment	(45,208,842)
Change in value of interest rate swap	(859,510)
Depreciation and amortization	17,642,887
Economic development cost	117,509,364
Transfers to the Research Foundation for The State University of New York	276,235
Change in operating assets and liabilities:	
Due from member	(14,615)
Grants and other receivables and other assets	(1,056,634)
Accounts payable	1,335,211
Accrued interest payable	(25,859)
Deferred rental revenue	<u>(608,842)</u>
Net cash provided by operating activities	<u>2,498,819</u>
Investing activities:	
Increase in assets limited as to use	69,619,710
Cash paid for construction and project development	(114,219,479)
Cash proceeds from sale of buildings and equipment	<u>2,980,385</u>
Net cash used in investing activities	<u>(41,619,384)</u>
Financing activities:	
Payments on amended loan agreement	(7,706,150)
Payments on supplemental loan note	(77,402)
Payments on loan agreement	(1,520,733)
Cash paid on line of credit	(2,208,973)
Transfers to the Research Foundation for The State University of New York	(276,235)
Cash received from grants restricted to long-term capital investment	<u>51,937,234</u>
Net cash provided by financing activities	<u>40,147,741</u>
Change in cash	1,027,176
Cash, beginning of year	<u>957,203</u>
Cash, end of year	<u>\$ 1,984,379</u>
Supplemental disclosure of noncash transactions:	
Cash paid for interest	\$ 1,551,191

See accompanying notes to consolidated financial statements.

FORT SCHUYLER MANAGEMENT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2018

(1) Organization

Fort Schuyler Management Corporation (the Corporation) is a New York not-for-profit corporation incorporated on October 20, 2009 under Section 402 of the New York State Not-for-Profit Corporation Law. The founding members of the Corporation are The Research Foundation for The State University of New York (the Research Foundation) and the SUNY Polytechnic Institute Foundation.

The Corporation was formed and shall be operated exclusively for scientific, educational, economic development, and charitable purposes. Its objectives are to facilitate research and economic development activities in support of the research and educational mission of The State University of New York (SUNY). The Corporation accomplishes this objective by purchasing, constructing, developing, managing and leasing facilities and promoting the research therein, which supports the economic development, research activities, and the mission of SUNY and SUNY Polytechnic Institute (SUNY Poly).

In November 2016, certain enhancements were made to the Corporation's existing bylaws. Among such changes included establishing a provision that New York State Urban Development Corporation (d/b/a Empire State Development) (ESD), an entity affiliated with New York State, has the right to recommend the appointment of two board directors and consent to the appointment of three additional directors at large. Further, ESD's President and CEO will serve as a non-voting, non-fiduciary advisory representative to the Corporation's board of directors.

Effective June 2, 2014, the Corporation formed Quad C Phase I, LLC for which the Corporation is the sole member. Quad C Phase I, LLC is a New York limited liability company formed to support the financing infrastructure necessary for the Quad C Building project. All transactions between the Corporation and Quad C Phase I, LLC have been eliminated in the accompanying consolidated financial statements.

In order to advance its corporate purpose, the Corporation has undertaken or completed the following activities since its inception:

- *Quad C Building (Quad C/Nano Utica)* – During 2016, the Corporation completed initial construction on Quad C, a 252,000 square foot facility with class 1,000 and class 100 cleanrooms and updated the building in 2017 through 2018. The facility is on land in Utica leased by the Corporation from the State of New York, acting by and through the State University of New York (see notes 5 and 6). As more fully described in note 8, the construction of the building was funded by various grants and a permanent loan for which grant revenue provided by ESD is utilized to repay the financing.
- *Buffalo High-Tech Manufacturing Complex (Buffalo High-Tech or Riverbend)* – During 2018, construction was completed on this high-tech complex located in Buffalo that will house Tesla, a clean energy company that will lease the site for advanced manufacturing. This project was funded by grants from ESD and the Dormitory Authority of the State of New York (DASNY) (see note 3).
- *Buffalo Medical Innovation and Commercialization Hub (Buffalo Medical)* – During 2016, construction was completed on a state-of-the-art shared user facility for biomedical research, development and testing. This project is located in an existing facility in spaces both leased and purchased by the Corporation in Buffalo and is leased to AMRI. The project was funded provided by grants from ESD.

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- *Central New York Hub for Emerging Nano Industries (CNY Hub):*
 - *Film Hub* – In 2016, construction was completed on an advanced visual production, research and education facility located in the Town of Dewitt on land purchased by the Corporation in December 2017. This project was funded by grants from DASNY and ESD. In 2018, ownership of this property was transferred to Onondaga County Local Development Corporation (Onondaga County LDC) (see note 5).
 - *High-Tech Manufacturing Facility (Syracuse High-Tech)* – In May 2015, the Corporation began work on a high-tech manufacturing facility in Syracuse. In 2018, improvements to the facility were undertaken to accommodate the requirements of NexGen, which is leasing the facility. This project is funded by a grant from ESD.
- *Buffalo Information Technologies and Commercialization Hub (Buffalo Info)* – During 2017, work was completed on purchased space in an existing facility to establish a research facility to be used to create cutting edge software for energy, health and defense industries (see note 6). The facility is leased by IBM. This project was funded by a grant from ESD.
- *North Country Hub for Innovative Manufacturing Nanotechnology*, the Corporation began planning the construction and equipping of the first industrial scale 3D printing manufacturing facility in the world, to be leased by Norsk. The facility will be located in Plattsburgh. Design commenced in 2017 and construction began in the fall of 2018, with a target completion date of mid 2020. This project is funded by grants from ESD.
- *Pharmaceutical Manufacturing* – In 2017 the Corporation completed the first phase of a project to create offices, labs and a pharmaceutical manufacturing facility for Athenex, Inc. The offices and labs are located in Buffalo at the Buffalo Medical Innovation and Commercialization Hub. The manufacturing facility will be in Dunkirk and construction began in the spring of 2018. This project is funded by grants from ESD.

(2) Summary of Significant Accounting Policies

(a) *Basis for Presentation*

The accompanying consolidated financial statements of the Corporation are presented consistent with Financial Accounting Standards Board, Accounting Standards Codification (ASC) Topic 958: *Not-for-Profit-Entities*, which addresses the presentation of financial statements for not-for-profit entities. Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor and grantor imposed restrictions. Accordingly, unrestricted net assets are amounts not subject to donor and grantor imposed restrictions and are available for operations or capital use. Temporarily restricted net assets are those whose use has been limited by donors or grantors to a specific time period or purpose. When a donor or grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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Notes to Consolidated Financial Statements

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The Corporation considers events or transactions that occur after the balance sheet date, but before the consolidated financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These consolidated financial statements were issued on September 20, 2019 and subsequent events have been evaluated through that date.

(b) Assets Limited as to Use

Assets limited as to use represent funds associated with grants and loan agreements that are restricted as to use, and consist of cash.

(c) Land, Buildings and Equipment

Land, buildings (inclusive of condominium units and permanent fixtures) and equipment (inclusive of major movable and fixed equipment and furniture and other improvements) are stated at cost or, if acquired by gift, at fair market value at the date of donation. Upon acquisition or construction of an asset and subsequent placement into service, the Corporation recognizes depreciation on buildings and equipment, on a straight-line basis, over the estimated useful lives of the assets, which range from 10 to 30 years for buildings and 5 to 15 years for equipment. Net interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring or constructing these assets.

Buildings and equipment, including construction in progress, and any other long-lived tangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require such a long-lived asset or asset group be tested for possible impairment, the Corporation first compares undiscounted cash flows expected to be generated by that asset or asset group to its carrying amount. If the carrying amount of the long-lived asset or asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying amount exceeds its fair value. Fair value is determined using various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary (see note 3).

(d) Rental Income and Other Support

Rental income represents amounts received from tenants pursuant to noncancelable operating leases (see note 6). Rental agreements with escalating rent payment terms are recognized as rental income on a straight-line basis over the minimum lease term. Leases that contain contingent or variable rental payments are recognized when such contingent events occur or are achieved. No such contingent rental income was recognized in 2018.

In 2011, SUNY, the Research Foundation, and Mohawk Valley Economic Development Growth Enterprise (MVEDGE) executed a Project Development Agreement (PDA) which identified MVEDGE as the lead developer of specified parcels of land (Parcels A through E) on approximately 396 acres of land located on the SUNY Poly campus in Utica where the Quad C building is located. Under this agreement, once tenants are identified, the Corporation will enter into additional ground subleases for parcels A through E of the site with the tenants. The Corporation will collect rent from the tenants of the project site and will remit a portion to MVEDGE pursuant to rent sharing provisions of the PDA. Upon execution of the PDA, the Corporation received \$2.25 million of prepaid rent from MVEDGE which is

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June 30, 2018

being amortized monthly as rental revenue over the 15-year term of the PDA. No amounts have been paid to MVEDGE under the rent sharing provision.

(e) *Deferred Financing Costs*

Deferred financing costs, which relate to the issuance of debt, are being amortized ratably over the period the debt is outstanding using the effective interest method. Debt issuance costs and deferred financing costs related to a recognized debt are presented on the balance sheet as a direct deduction from the associated debt outstanding.

(f) *Income Taxes*

The Corporation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the Code), and is exempt from federal income taxes pursuant to Section 501(a) of the Code. The Corporation applies the provisions of ASC Subtopic 740-10, *Accounting for Uncertainty of Income Taxes*, which addresses accounting for uncertainties in income taxes recognized in an entity's financial statements and prescribes a threshold of more-likely than-not for recognition of tax positions taken or expected to be taken in a tax return. ASC Subtopic 740-10 also provides guidance on measurement, classification, interest and penalties, and disclosure of tax uncertainties. As of June 30, 2018 there are no uncertain income tax positions that require recognition in the accompanying consolidated financial statements.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Corporation has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material effect on the operations of the Corporation.

(g) *Derivative and Hedging Activities*

The Corporation accounts for derivatives and hedging activities in the balance sheet at fair value. As the Corporation does not report earnings as a separate caption in the statement of activities, it recognizes the change in fair value on all derivative instruments as a change in net assets in the period of change (see note 9).

(h) *Fair Value Measurements*

The Corporation estimates fair value on a valuation framework 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 or liabilities (Level 1 measurements); then to quoted prices for similar assets or liabilities in active markets, quoted prices in markets that are not active, or models that use inputs that are either directly or indirectly observable (Level 2 measurements); and the lowest priority to unobservable inputs (Level 3 measurements).

Cash equivalents, which are included within assets limited as to use, are stated at fair value using Level 1 measurements. The Corporation's interest rate swap is stated at fair value as determined by pricing tools that use observable inputs, and therefore is considered a Level 2 measurement.

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Notes to Consolidated Financial Statements

June 30, 2018

(i) Use of Estimates

Management of the Corporation has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingencies to prepare these consolidated financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ materially from those estimates.

(j) Transactions with Member

Pursuant to a Staffing and Fiscal Services Agreement between the Corporation and the Research Foundation, certain administrative services are provided by the Research Foundation on the Corporation's behalf. The amounts related to such support are reflected in the statement of activities in contracted services. In addition, the Research Foundation maintains an operating cash account on the Corporation's behalf. Cash held by the Research Foundation on behalf of the Corporation is reflected as due from member in the accompanying consolidated balance sheet. Transfers to the Research Foundation represent reimbursement of program service cost incurred by the Research Foundation that are supported by Corporation grants.

(3) Economic Development Projects

In connection with the Corporation's mission to support the economic development activities that relate to the research and educational mission of SUNY, the Corporation is a party to various arrangements in which New York State grants are made to the Corporation to construct, hold title, and lease facilities and equipment to corporate enterprises with the aim of, among other things, promoting job creation and investment in New York State. Such economic development projects generally create jobs and corporate investments in the communities of New York State, however, periodically a direct financial return is not received directly by the Corporation. For financial accounting purposes, at inception of the project, the Corporation assesses the economic development program and whether the direct financial consideration to be provided to the Corporation by corporate parties will support the invested value of the property and equipment for financial reporting purposes. If it is determined that the direct financial benefits associated with ownership of the property and/or equipment is not likely to support the capitalized cost, such assets are reduced to the estimated cash flows and residual value that the Corporation reasonably expects to directly receive over the life of the property.

(a) Riverbend

In September 2014, a Strategic Alliance Agreement (Agreement) was entered into between the Research Foundation and Silevo, Inc., predecessor to Tesla, Inc. (hereinafter Tesla). The stated purpose of the Agreement was to create a research and development collaboration and mutually beneficial economic arrangement focused on the U.S. based manufacturing expansion and commercialization of certain Tesla hybrid solar technologies and the establishment of Tesla manufacturing, business, and related operations in Western New York. To achieve this, New York State provided funds through ESD and DASNY to the Corporation totaling \$958.6 million, of which \$660.1 million was for the purchase of land and the construction of a manufacturing facility and \$298.5 million was for the acquisition of manufacturing equipment to be used in the facility. The real property on which the manufacturing facility was built consists of approximately 88 acres located in the City of Buffalo.

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Under the terms of the Agreement, Tesla agreed to lease the manufacturing facility and equipment from the Research Foundation or its designee, the Corporation, each for an initial period of 10 years for consideration of \$1.00 per year. Tesla also agreed to spend or incur approximately \$5.0 billion in combined capital, operational expenses and other costs in New York State during the initial 10 year term, while also agreeing to employ a specified number of positions for manufacturing operations and support of downstream sales and installation activities within New York State. The Agreement also provides that the Corporation and Tesla may mutually renew the lease arrangement in accordance with defined terms that include Tesla committing to spend or incur at least \$3.0 billion in additional combined capital, operational expenses and other costs in New York State during an additional 10 year period in exchange for continued use of the manufacturing facility, inclusive of the manufacturing equipment, for \$1.00 per year.

The Corporation substantially completed the facility for occupancy and equipment installation in 2018. The Corporation assessed the lease arrangement and upon consideration of its various terms, including the intended New York State economic development objective, the limited direct financial consideration to be provided to the Corporation by Tesla over the initial lease term and potential renewal period, and the estimated useful life of the facility and associated equipment, the Corporation determined it will not likely receive the direct financial benefits associated with ownership of the manufacturing facility and equipment and accordingly recognized a cumulative \$883.8 million reduction of net assets to write-down the cost of the facility and equipment from project inception through June 30, 2018, of which \$17.0 million was recognized in the 2018 statement of activities as economic development project cost. The estimation of fair value for accounting purposes at project inception was primarily determined based upon contractual and estimated lease cash flows (Level 3 fair value measurements).

In November 2018, in order to preserve the property tax exemption, the title to the property on which the manufacturing facility resides was transferred from the Corporation to ESD and leased back from ESD for a term of 10 years. After the 10 year lease period, ESD is required to transfer the property back to the Corporation.

(b) Other Projects

Over the past several years, the Corporation has been a party to several arrangements in which it received grants, generally from ESD, to construct and acquire manufacturing facilities and equipment to achieve the goals of the Nano Utica, Syracuse High-Tech and Plattsburgh Tech programs. These programs require the corporate partners to achieve various long-term job creation and operational investment goals in New York State. The Corporation assessed the long-term goals of these programs and the accompanying lease agreements associated with the facilities and equipment and determined the Corporation will not receive the direct financial benefits associated with the ownership of such capital assets over the estimated useful life of the assets and accordingly recognized a cumulative \$311.4 million reduction of the capitalized net assets from project inception through June 30, 2018, of which \$87.3 million was recognized in the 2018 statement of activities as economic development project cost. The estimation of fair value for accounting purposes was determined at project inception based upon discounted cash flow models in which future contractually known and estimated lease payments were discounted using risk-based rates between 6% and 15% as of the measurement date (Level 3 fair value measurement).

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In connection with the preparation of the 2018 consolidated financial statements, the Corporation determined that the cumulative write-down for the economic development projects discussed in (a) and (b) above should have been recognized at inception of the program, when it was determined by the Corporation the expected direct economic benefits associated with ownership of the assets do not support the Corporation's expected project costs for financial reporting purposes. Historically, such impairments (write-downs) would have been recognized upon commencement of the lease, which generally occurs later than commencement of the economic development project. In instances where such identified projects are still being constructed, future capital costs will be impaired through the construction period. The Corporation has corrected its financial statements to recognize such write-downs at the outset of the project. The following summarizes the cumulative effect of this correction to elements of the June 30, 2017 consolidated financial statements:

	<u>As previously reported</u>	<u>As corrected</u>
Land, buildings, and equipment, net	\$ 1,205,114,443	116,132,301
Total assets	1,399,105,836	310,123,694
Net asset	1,305,632,264	216,650,122
Change in net assets	412,094,102	59,601,386

(4) Grants and Other Contributions and Receivables

Grant revenue and related receivables, which are included in grants receivable in the consolidated balance sheet, as of June 30 are summarized as follows:

<u>Project</u>	<u>Temporarily restricted grants and other contribution revenue</u>	<u>Grant receivable</u>
Quad C/Nano Utica	\$ 7,581,730	—
Buffalo Medical	452,968	452,968
CNY Hub	3,738,355	—
High-Tech Syracuse	16,605,422	—
Plattsburgh Tech	16,895,673	—
Other	(65,306)	—
	<u>\$ 45,208,842</u>	<u>452,968</u>

The grants above are primarily awarded from ESD (see note 1). A portion of the Nano Utica/Quad C grants shown above is for capital and related cost, and also is used to support amounts due under the Amended Loan Agreement (see note 8).

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Notes to Consolidated Financial Statements

June 30, 2018

(5) Land, Buildings and Equipment

Land, buildings and equipment as of June 30 are summarized as follows:

Land	\$ 6,031,466
Buildings, condominium units, permanent fixtures	13,155,666
Equipment, furniture, and other fixtures	<u>101,951,327</u>
	121,138,459
Less accumulated depreciation and amortization	<u>28,700,943</u>
	92,437,516
Construction in progress	<u>2,390,398</u>
	<u><u>\$ 94,827,914</u></u>

Substantially all of the Corporation's buildings, equipment, and furniture and fixtures are subject to lease agreements with third party corporations (see note 1) that vary in length from 7 to 25 years, inclusive of anticipated lease extensions.

Construction cost for projects in progress are capitalized or expensed as incurred based on the nature of the project and anticipated direct cash flows to the Corporation for such projects (see note 3). Projects in progress at June 30, 2018 include the Syracuse High-Tech Manufacturing Facility in Syracuse, Plattsburgh Tech and Quad C/Nano Utica projects as of June 30, 2018 (see note 7).

The Corporation has executed construction agreements in relation to these projects in progress, for which approximately \$53.9 million of financial commitments are outstanding as of June 30, 2018. In addition, the Corporation has financial commitments to purchase equipment for these facilities of approximately \$71.7 million as of June 30, 2018. These represent financial commitments of the Corporation, up to the value of grants received.

For the year ended June 30, 2018, depreciation expense was \$17.6 million.

In June of 2018, in furtherance of its tax-exempt purposes, the Corporation transferred its CNY Hub – Film Hub, located in Syracuse, to the Onondaga County LDC. The carrying value of the facilities, including the building and related equipment, was \$13.2 million. As a result, the Corporation recorded a \$13.2 million impairment for the transfer of the property through economic development project costs during the year ended June 30, 2018.

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Notes to Consolidated Financial Statements

June 30, 2018

(6) Lease Commitments

Future minimum lease payments and receipts for the next five years and thereafter are as follows as of June 30, 2018:

Payments owed:		
2019	\$	1,444,446
2020		1,444,445
2021		1,549,602
2022		1,559,162
2023		1,559,162
Subsequent		20,555,372
Rental receipts:		
2019	\$	3,093,423
2020		3,297,591
2021		3,357,809
2022		1,857,270
2023		1,456,668
Subsequent		4,766,005

Rental receipts reported above do not include lease commitments with tenants in which the Corporation has not yet completed construction or fit up of the space to be leased, as of June 30, 2018.

(7) Line of Credit

In October 2014, the Corporation entered into a \$70.0 million Grant Advance Revolving Line of Credit Agreement (LOC Agreement) with KeyBank, N.A., which is restricted to providing bridge financing for various construction projects funded by specific grants from New York State as stated in the LOC Agreement. The terms of the LOC Agreement require the Corporation to deposit grant receipts from New York State in an account designated by the bank to be applied against outstanding principal allocable to that grant. The LOC Agreement bears interest at 30-day LIBOR plus 125 basis points and requires the Corporation to meet certain covenants on a periodic basis. The balance was completely paid on January 31, 2018 and the LOC Agreement was closed.

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Notes to Consolidated Financial Statements

June 30, 2018

(8) Loan Agreements Payable

Loan agreements payable as of June 30 is summarized as follows:

Amended Loan Agreement, KeyBank	\$ 42,638,050
Supplemental Loan Note, KeyBank	387,009
Loan Agreement, M&T Bank	<u>5,435,346</u>
	48,460,405
Less:	
Unamortized deferred financing costs	<u>1,694,050</u>
	<u>\$ 46,766,355</u>

(a) Building Loan Agreement and Amended Loan Agreement

In September 2014, the Corporation amended and restated an existing \$31.0 million Building Loan Agreement related to Quad C into a permanent \$65.0 million Loan Agreement (the Amended Loan Agreement) with TD Bank, as Administrator and Lead Arranger, and a syndicate of other financial institution lenders. Subject to the terms and conditions of the Amended Loan Agreement, during the Quad C construction period the lenders made advances to the Corporation with interest payments due on a monthly basis. Commencing on September 1, 2015, the Corporation began making principal payments, which are due annually over an 8 year term, maturing in September 1, 2022. Financing costs for the original loan and its amendment of \$1.6 million were incurred and are recognized as interest expense over the term of the Amended Loan Agreement.

In July 2015, the Amended Loan Agreement was further modified to replace TD Bank with KeyBank as Administrative Agent and Lead Arranger, modify the interest rate to 30-day LIBOR plus 125 basis points, and modify the syndicate of lenders. All other substantive loan terms remained unchanged. In connection with the modification, an interest rate swap agreement was executed with KeyBank (see note 9). At June 30, 2018, the interest rate was 3.25%.

(b) Supplemental Loan Note

To provide bridge financing for the Quad C project until receipt of grant funds, an incremental \$5.0 million Supplemental Loan Note was issued by KeyBank concurrent with the execution of the July 2015 Amended Loan Agreement. An initial principal payment of \$3.2 million was due and paid in September 2016, while the remaining scheduled payments are due over an 8 year term. At June 30 the interest rate was 3.25%.

(c) Loan Agreement

In May 2016, the Corporation entered into a 5 year Loan Agreement with M&T Bank for \$8.1 million to provide working capital funds. The loan is secured by the assignment of tenant lease revenue for 7 floors owned by the Corporation in the Key Center in Buffalo, and by a negative pledge on that property. Funds were available to the Corporation upon written notice to M&T Bank of completion of each floor and notice to the tenant. The interest rate on the loan is 2.69% with monthly payments of principal and interest. All floors were completed and all loan proceeds received by June 30, 2017.

FORT SCHUYLER MANAGEMENT CORPORATION

Notes to Consolidated Financial Statements

June 30, 2018

The Corporation must satisfy certain financial and reporting requirements so long as the respective loans are outstanding. As of and subsequent to June 30, 2018, the Corporation was not in compliance with certain of its reporting requirements. The lending institutions have waived these instances of noncompliance.

Following are the required principal payments on the loan agreements payable, as of June 30, 2018:

Year ending June 30:	
2019	\$ 9,658,762
2020	10,021,995
2021	10,402,306
2022	9,192,690
2023	<u>9,184,652</u>
	<u>\$ 48,460,405</u>

(9) Interest Rate Swap Agreement

In July 2015, as required by the terms of the Amended Loan Agreement, the Corporation entered into an interest rate swap agreement (swap agreement) to hedge variability in cash flows associated with interest payments on its Amended Loan Agreement (see note 8). The interest rate swap agreement essentially converts the long-term debt issuance from a variable interest rate to a fixed interest rate. The swap agreement provides for the Corporation to pay a fixed rate of interest over the term of the Amended Loan Agreement (maturing September 1, 2022) of 1.676%. The variable rate received by the Corporation under the swap is equal to the 1-month LIBOR rate on the first day of the month. The fair value of the interest rate swap is determined based on future cash flows calculated through a projection of forward rates, which are then discounted at observable market rates to their present value (Level 2 fair value measurement). Interest rate swaps do not relieve the Corporation from its obligations under long-term debt issuances.

(10) Contingencies

The Corporation is involved in claims and legal actions arising in the ordinary course of business. In the opinion of management, as of June 30, 2018, the ultimate disposition of these matters will not have a material adverse effect on the Corporation's financial position, results of operations, or liquidity.

In September 2016, a criminal complaint was filed by the U.S. Attorney's Office for the Southern District of New York against a former member of the board of the directors of the Corporation for allegedly conspiring to defraud the Corporation in connection with certain Corporation procurement activities. On November 22, 2016, the U.S. Attorney's Office for the Southern District of New York returned a criminal indictment against this same individual for the same alleged conduct. Trial in this case began on June 18, 2018, and, on July 12, 2018, the jury returned a verdict of guilty against this individual and the other defendants in the case. This individual was sentenced on December 11, 2018. He is currently appealing his conviction. The Corporation was identified as a victim of the offenses for which this individual was convicted, and no claims were alleged against the Corporation in this matter.

FORT SCHUYLER MANAGEMENT CORPORATION

Schedule of Increases in Unrestricted Net Assets

Year ended June 30, 2018

	<u>Quad C</u>	<u>Key Center</u>	<u>All Other</u>	<u>Total</u>
Support and revenue:				
Rental income and other support	\$ 944	2,990,189	2,594,184	5,585,317
Grants and other contributions	—	—	6,000,000	6,000,000
Net assets released from restrictions	<u>59,016,083</u>	<u>—</u>	<u>71,475,583</u>	<u>130,491,666</u>
Total support and revenue	<u>59,017,027</u>	<u>2,990,189</u>	<u>80,069,767</u>	<u>142,076,983</u>
Expenses:				
Contracted services	—	106,766	357,122	463,888
Utilities, repairs and maintenance	36,277	740,316	1,412,139	2,188,732
Rent	—	13,061	2,086,882	2,099,943
Insurance and other	2,564	39,267	272,332	314,163
Professional fees	95,752	7,293	1,637,016	1,740,061
Interest	1,734,612	170,933	3,427	1,908,972
Depreciation and amortization	—	7,904,037	9,738,850	17,642,887
Economic development project costs	50,073,691	—	67,435,673	117,509,364
Transfers to the Research Foundation for the State University of New York	<u>276,235</u>	<u>—</u>	<u>—</u>	<u>276,235</u>
Total expenses and transfers	<u>52,219,131</u>	<u>8,981,673</u>	<u>82,943,441</u>	<u>144,144,245</u>
Increase in net assets, before other changes in net assets	6,797,896	(5,991,484)	(2,873,674)	(2,067,262)
Other changes in net assets:				
Change in fair value of interest rate swaps	<u>859,510</u>	<u>—</u>	<u>—</u>	<u>859,510</u>
	<u>859,510</u>	<u>—</u>	<u>—</u>	<u>859,510</u>
Increase (decrease) in net assets	\$ <u><u>7,657,406</u></u>	<u><u>(5,991,484)</u></u>	<u><u>(2,873,674)</u></u>	<u><u>(1,207,752)</u></u>

See accompanying notes to consolidated financial statements.