FORT SCHUYLER MANAGEMENT CORPORATION

Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

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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 financial statements of Fort Schuyler Management Corporation, which comprise the balance sheets as of June 30, 2013 and 2012, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 financial statements are free of 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 auditors' judgment, including the assessment of 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 financial position of Fort Schuyler Management Corporation as of June 30, 2013 and 2012, and the results of its activities, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Albany, New York
March 10, 2014

FORT SCHUYLER MANAGEMENT CORPORATION

Balance Sheets

June 30, 2013 and 2012

Assets		**2013**	**2012**
Cash	$	43	996
Due from member		660,714	896,008
Grant receivable		1,059,152	—
Prepaid expenses		9,649	9,352
Asset limited as to use by grant agreement		30,000	10,000,000
Construction and project development in progress		7,447,679	1,113,936
Land held for development		104,283	104,283
Total assets	$	9,311,520	12,124,575
Liabilities and Net Assets			
Liabilities:			
Accrued construction and project development and other expenses payable	$	1,069,852	3,000
Deferred rental revenue		1,775,000	1,925,000
Advance from The State University Construction Fund		—	10,000,000
Total liabilities		2,844,852	11,928,000
Net assets:			
Unrestricted		6,466,668	196,575
Total liabilities and net assets	$	9,311,520	12,124,575

See accompanying notes to financial statements.

FORT SCHUYLER MANAGEMENT CORPORATION

Statements of Activities

Years ended June 30, 2013 and 2012

	2013			2012		
	Unrestricted	**Temporarily restricted**	**Total**	**Unrestricted**	**Temporarily restricted**	**Total**
Support and revenue:						
Rental income and other support	$ 152,333	—	152,333	150,996	—	150,996
Grant income	—	6,360,456	6,360,456	—	—	—
Net assets released from restrictions	6,360,456	(6,360,456)	—	—	—	—
Total support and revenue	6,512,789	—	6,512,789	150,996	—	150,996
Expenses:						
Contracted services	194,724	—	194,724	118,716		118,716
Insurance and other	47,972	—	47,972	53,773		53,773
Total expenses	242,696	—	242,696	172,489	—	172,489
Change in net assets	6,270,093	—	6,270,093	(21,493)	—	(21,493)
Net assets at beginning of year	196,575	—	196,575	218,068		218,068
Net assets at end of year	$ 6,466,668	—	6,466,668	196,575	—	196,575

See accompanying notes to financial statements.

FORT SCHUYLER MANAGEMENT CORPORATION

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013	2012
Operating activities:			
Change in net assets	$	6,270,093	(21,493)
Adjustments to reconcile change in net assets to net cash provided by operating activities:			
Grants restricted to long-term capital investment		(6,360,456)	—
Change in operating assets and liabilities:			
Due from member		235,294	489,525
Prepaid expenses		(297)	13,672
Accrued construction and project development and other expenses payable		7,700	—
Deferred rental revenue		(150,000)	(150,000)
Net cash provided by operating activities		2,334	331,704
Investing activities:			
Change in assets limited as to use by grant agreement		(30,000)	—
Cash paid for construction and project development		(5,274,591)	(330,708)
Net cash used in investing activities		(5,304,591)	(330,708)
Financing activities:			
Cash received from grants restricted to long-term capital investment		5,301,304	—
Net cash provided by financing activities		5,301,304	—
Change in cash		(953)	996
Cash, beginning of year		996	—
Cash, end of year	$	43	996
Supplemental disclosure of noncash transactions:			
Unpaid construction and project development cost		1,059,152	—

See accompanying notes to financial statements.

(1) Organization

Fort Schuyler Management Corporation (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 Institute of Technology Foundation at Utica/Rome, Inc. (SUNYIT Foundation).

The Corporation was formed and shall be operated exclusively for scientific, educational, 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 in and around the cities of Utica and Rome, New York by purchasing, constructing, developing and managing research focused facilities to support the economic development, research activities, and the mission of The State University of New York (SUNY) and its State University of New York Institute of Technology (SUNYIT) campus. The Corporation will advance the growth of an emerging nanotechnology and semiconductor research and development cluster in New York that includes the College of Nanoscale Science and Engineering at the University at Albany (CNSE).

In order to advance its corporate purpose, the Corporation has or will undertake the following activities:

- *Ground Lease*: In March 2011, the Corporation entered into a 30 year Ground Lease with the State of New York, acting by and through SUNY, for approximately 396 acres of land located on the SUNYIT campus in Utica, New York (the project site) to be used for the Corporation's stated purpose. The Corporation will maintain possession and control of certain portions of land pursuant to the ground lease (Parcel F) as well as land acquired from third parties (Grace Meyer Parcel #2) in order to facilitate the design, construction and operation of the integrated Center for Advanced Technology (CAT) and the Computer Chip Commercialization Center (Quad C) facilities.
- *Ground Sub-Lease*: Contemporaneous to the execution of the Ground Lease, the Corporation entered into a ground sublease (Ground Sublease) with Mohawk Valley Economic Development Growth Enterprises Corporation (EDGE) for a significant portion of the land leased by the Corporation from SUNY (Parcels A through E).
- *Center for Advanced Technology and Computer Chip Commercialization Center*: The CAT facility was originally planned to be a 65,000 square foot office building and the Quad C was originally planned to be a 120,000 square foot building consisting of office, laboratory and clean room space.

  In August 2012, the Corporation executed a Notice to Proceed (NTP) with a third-party contractor to provide the CAT and Quad C building design, budget, timeline and construction. In June 2013, the NTP was amended to establish a total not-to-exceed expenditure of $41.2 million for the initial construction of the facilities. In connected with the amended NTP, it was determined that a single integrated CAT and Quad C building (integrated-Quad C) would best maximize the available budget. The facilities will be built on land maintained in the possession and control of the Corporation via the Ground Lease. The Corporation will own and operate the facilities, which will be leased to third party companies as well as SUNYIT academic research users.

The total square footage of the integrated-Quad C building increased to approximately 252,000 gross square feet, based on projected tenant needs. The total cost of the integrated-Quad C facility is estimated to be $118.0 million. Construction of the facility commenced in June of 2013 and will be complete at the end of 2014. As more fully described in note 3, financing for the construction of the facility will be provided by various state and local grants.

(2) Summary of Significant Accounting Polices

(a) Basis for Presentation

The accompanying financial statements of the Corporation are presented consistent with Financial Accounting Standards Board, *Accounting Standards Codification* (ASC) Topic 958, which addresses the presentation of financial statements for not-for-profit entities. In accordance with the provisions of Topic ASC 958, 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. 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.

The Corporation considers events or transactions that occur after the balance sheet date, but before the financial statements are issued, to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. These financial statements were issued on March 10, 2014 and subsequent events have been evaluated through that date.

(b) Assets Limited as to Use and Advance from the State University Construction Fund

In October 2011, The State University Construction Fund (SUCF) and the Corporation executed a Service Agreement, under which a $27.9 million legislative appropriation would be transferred from SUCF to FSMC for the purpose of constructing the integrated-Quad C facility. During 2012, FSMC received an advance of $10.0 million for the construction of the facility, which was reported as assets limited as to use, and consisted of cash. No portion of the advance was expended and in early 2013 the full amount of the advance was returned to SUCF. Future funding under the Service Agreement will be provided on a reimbursement basis, as costs are incurred to construct the integrated-Quad C project.

(c) Construction and Project Development Costs

Construction and project development costs represent amounts incurred for the development of an integrated-Quad C building and the cost to construct the facility. Upon completion of the project, the capitalized construction and project development costs will be depreciated over the useful life of the building.

(d) Land Held for Development

Land held for development represents 8.15 acres deeded to the Corporation at fair market value by EDGE, which will be used for the integrated – Quad C building.

(e) Deferred Rental Revenue

In 2011, SUNY, the Research Foundation, and EDGE executed a Project Development Agreement (PDA) which identified EDGE as the lead developer of Parcels A through E of the project site. Under this agreement, EDGE will take the lead role on the initial site work, facility design, construction and marketing to potential tenants of the project site. Once tenants are identified, the Corporation will enter into additional ground subleases for parcels A through E of the project site with the tenants. The Corporation will collect rent from the tenants of the project site and will remit a portion to EDGE pursuant to rent sharing provisions of the PDA. Upon execution of the PDA, the Corporation received $2.25 million of prepaid rent from EDGE which is being amortized monthly as rental revenue over the 15 year term of the PDA.

(f) Income Taxes

The Corporation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (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. Management has evaluated ASC Subtopic 740-10 and has determined that there are no uncertain income tax positions that require recognition in the accompanying financial statements for the years ended June 30, 2013 and 2012.

(g) 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 financial statements in conformity with U.S. generally accepted accounting principles. Actual results could differ from those estimates.

(h) Due from 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 statements of activities as contracted services for the years ended June 30, 2013 and 2012.

In addition, the Research Foundation maintains an operating cash account on the Corporation's behalf. Cash held by the Research Foundation on behalf of Corporation's is reflected as due from member in the accompanying balance sheets as of June 30, 2013 and 2012.

(3) Grant Income and Receivable

The integrated-Quad C construction is expected to be financed through grants and designated funds from various state and local agencies. In June 2010, The State University Construction Fund (SUCF) committed $27.9 million of capital construction funds pursuant to a New York State appropriation. As of June 30, 2013, approximately $6.4 million of the grant had been expended, of which $1.1 million was receivable from SUCF.

Other grants and related agreements that have been executed by the Corporation include the following, as of June 30, 2013:

- The Dormitory Authority of the State of New York, which has committed $7.8 million,
- The Empire State Development Corporation, which has committed $16.3 million.