CAPITALIZE ALBANY CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2014 and 2013

CAPITALIZE ALBANY CORPORATION

TABLE OF CONTENTS

UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capitalize Albany Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capitalize Albany Corporation (a component reporting unit of the City of Albany), which comprise the consolidated statements of net position as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 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 auditor's judgment, including the assessment of the 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.

UHY LLP Certified Public Accountants

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capitalize Albany Corporation as of December 31, 2014 and 2013, and the changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 19, 2015, on our consideration of Capitalize Albany Corporation'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 Capitalize Albany Corporation's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
March 19, 2015

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of Capitalize Albany Corporation (CAC or the Corporation) activities and financial performance, is offered as an introduction and overview of the consolidated financial statements of CAC for the fiscal year ended December 31, 2014. Following this MD&A are the basic consolidated financial statements of CAC together with the notes thereto which are essential to a full understanding of the data contained in the consolidated financial statements. In addition to the notes, this section also presents certain supplementary information to assist with the understanding of CAC's financial operations.

CAC has a Corporate Governance Policy which includes a conflict of interest policy and a conflict of interest disclosure. The conflict of interest disclosure is distributed to and completed by CAC's Board of Directors on an annual basis. CAC has also adopted several policies as required under the Public Authorities Accountability Act (PAAA) of 2005 and the Public Authorities Reform Act (PARA) of 2009.

The Finance and Investment Committee meets on a quarterly basis or more frequently if necessary to provide enhanced project and transactional analysis. As necessary, the Committee makes recommendations for the Board's consideration. On a monthly basis, the Board of Directors of CAC meets to discuss programming needs, project activity and progress, and meets quarterly to discuss CAC's financial position. In addition, the Audit Committee of the Board of Directors, without management present, independently meets with the external auditors to discuss relevant issues and concerns.

OPERATION SUMMARY

In 1979, the Capitalize Albany Corporation (formerly Albany Local Development Corporation) was incorporated to primarily provide financing to eligible businesses in order to create and retain employment and investment within the City of Albany. CAC continues to extend loans and plays an active role in facilitating large-scale transformational real estate projects that the Corporation has identified as a priority.

The mission of CAC is to facilitate economic development within the City of Albany. CAC has remained true to this mission since its inception and has a strong track record of adapting its strategies to meet shifting local and national trends in order to meet its mission.

CAC executes the Capitalize Albany economic development strategy as well as implements strategic initiatives related to transformational real estate development, business development, downtown revitalization, and residential conversion. These strategic efforts are developed in partnership with regional stakeholders, and are backed by market analysis and trend identification. Implementation of these strategies is accomplished through direct efforts of the Corporation as well as through collaboration with complementary organizations and tools.

Business Development

CAC facilitates real estate transactions to expand and enhance business development and investment opportunities. Additionally, CAC encourages job creation and business development by extending loans to new and existing businesses, as well as providing technical support with respect to city, state and other economic development programs.

During 2014, the Corporation sold its investment properties located at 245 Lark Street and 677 Broadway. CAC realized an approximately $1,457,800 gain on the sale of these two properties.

CAC administers and provides staffing, office equipment, phone and computer network support to the City of Albany Industrial Development Agency (CAIDA) and the City of Albany Capital Resource Corporation (CACRC). During 2014, 21 organizations utilized the programs and incentives of the CAIDA; the approval of the projects will result in over $300 million of investment within the City of Albany. These projects are anticipated to create or retain nearly 1,750 temporary and permanent jobs within the City and create over 764 units of both affordable and market-rate housing.

Impact Downtown Albany

The revitalization of Downtown Albany is a strategic priority of the CAC. In response to the recognized need for a common vision, strategic direction, and tactical solutions to issues facing the Downtown Neighborhood, during 2013 a Tactical Plan Committee was formed by the Board of Directors. The Committee will develop strategies to capitalize on growing national trends that could benefit Downtown.

Following a national search, a consultant team was identified to assist CAC in the preparation of a tactical revitalization plan for Downtown Albany. Impact Downtown Albany will be a strategic plan which positions Downtown, its adjacent warehouse district and waterfront as the ideal urban center. The objectives and strategies built by this plan will focus on attracting organizations in addition to strengthening and revitalizing the built environment.

This project embraces the model of public/private collaboration for urban reinvestment. The deliverables created by this project will provide a clear path forward for projects, incentives and structural changes and define what Downtown should be striving toward throughout the next decade.

Residential Conversion Projects

In 2010, the Corporation's Board of Directors established a Real Estate Loan Fund designed to provide subordinate lending to qualifying borrowers at below market rates in concert with primary lenders for the purpose of stimulating strategic development projects. The Board allocated $2 million to capitalize the Fund which is focused on revitalizing strategic vacant or underutilized real estate that will contribute positive and transformational development activity. Through December 31, 2014, $1,300,000 has been disbursed under this program representing over $14 million of project investment within the City of Albany. These projects have created 92 market-rate rental units.

FINANCIAL OPERATIONS HIGHLIGHTS

CAC's activities fluctuate greatly from year to year. With such diversity, it is not always meaningful to compare revenue and expenditure levels to prior years. While revenues and expenditures for any given year represent activity during that year, one must consider the level of program revenue to program expenses within a given year, in relation to the projects undertaken and accomplished during that same year. A condensed summary of revenues and expenses for the years ended December 31, 2014 and 2013 is shown below:

	2014	2013
Total revenues	$ 3,134,920	$ 1,868,517
Total expenses	1,672,865	1,787,212
Excess of revenues over expenses	$ 1,462,055	$ 81,305

Total revenues increased $1,266,403 or 68%:

- Grant revenues and contribution income decreased $113,975 or 14% from $812,372 in 2013 to $698,397 in 2014. The decrease is primarily attributable to the close of NY Main Street Grant which occurred in 2013. Revenue derived from grants is typically program specific and non-recurring. Significant grants in 2014 include $250,000 from the IDA and $171,013 from the Albany Community Development Agency both for general economic development support.

- Rental income decreased by $33,908 or 9% from $378,408 in 2013 to $344,500 in 2014. This is primarily attributable to the loss of rental income to the Corporation as a result sale of the Corporation's property located at 677 Broadway.

- Other interest and investment income decreased $84,058 or 33% from $254,484 in 2013 to $170,426 in 2014 primarily due to the change in fair market value of investments.

- Interest income on mortgage notes increased $5,962 or 7% from $82,775 in 2013 to $88,737 in 2014 due to issuance of new loans.

- There was a gain on sale of properties in the amount of $1,457,824 in 2014.

- Fees and other income increased $34,558 or 10% from $340,478 in 2013 to $375,036 in 2014. This is primarily attributable to the increase in the professional services agreement with the City of Albany IDA and Capital Resources Corporation.

Total expenses decreased $114,347 or 6%:

- Salaries and fringe benefits increased $23,875 or 4% from $644,284 in 2013 to $668,159 in 2014. This increase reflects the appointment of a full time president position that occurred during July 2014.

- Program and project costs increased $48,210 or 9% from $544,248 in 2013 to $592,458 in 2014. The increase is primarily attributable to consultancy expenses incurred as part of the creation of the Impact Downtown Albany Plan.

- Interest expense decreased $18,404 or 21% from $86,666 in 2013 to $68,262 in 2014. This decrease is attributable to reduced interest rate on the variable rate bonds that were issued to finance redevelopment projects supported by capital leases.

- Bad debt recoveries totaled $202,751 in 2014 compared to $25,490 in 2013.

- Professional and consulting expenses increased $29,292 or 9% from $341,719 in 2013 to $371,011 in 2014. This increase is primarily attributable to the additional legal services incurred with the Corporation's projects and activities.

- Other administrative expenses decreased $20,059 or 10% from $195,785 in 2013 to $175,726 in 2014. This decrease is attributable to the modest decreases in various administrative expenses.

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A condensed summary of CAC's net position at December 31, 2014 and 2013 is shown below:

	2014	2013
Assets		
Cash and cash equivalents	$ 4,088,738	$ 3,651,644
Investments	3,411,362	2,857,394
Restricted cash	515,528	448,983
Other assets	899,542	912,661
Mortgage notes receivable, net of allowances	2,822,105	2,117,776
Net investment in direct financing leases	671,521	1,738,880
Property, plant and equipment, net (includes property held for investment and lease)	2,974,955	3,786,767
Total assets	$ 15,383,751	$ 15,514,105
Deferred Outflows of Resources	$ -	$ -
Liabilities		
Bonds payable	$ 2,650,000	$ 3,868,590
Other liabilities	839,471	1,213,417
Unearned program support and revolving loan fund liability	783,822	783,695
Total liabilities	$ 4,273,293	$ 5,865,702
Deferred Inflows of Resources	$ -	$ -
Net Position		
Net investment in capital assets	$ 914,953	$ 1,586,766
Restricted net position	304,993	310,511
Unrestricted net position	9,890,512	7,751,126
Total net position	$ 11,110,458	$ 9,648,403

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

In 2015, CAC will focus on the completion of the Impact Downtown Albany Plan. This Plan will identify opportunities for economic development and growth in Downtown through the development of new programs and initiatives, focusing on a variety of areas, including long-range vision, community engagement, and market driven recommendations.

CAC will continue to facilitate the Capitalize Albany Economic Development Strategy. As part of that strategy, the Corporation will continue to focus on developing more downtown residential capacity and will pursue opportunities that will result in catalytic development projects as well as maximize and diversify potential revenue sources for the Corporation.

Continual execution of the Strategic Plan established by the Corporation's Board in 2009 will translate into potential projects. New economic development opportunities with the potential to generate new resources to stimulate growth will be developed by re-focusing and deploying existing strengths and resources. Ultimately, programmatic, marketing, and financial initiatives will reconcile to the objectives set forth in the Strategic Plan.

FINANCIAL STATEMENTS

CAC's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB). CAC is organized under the Not-For-Profit Corporation laws of the State of New York. CAC is also a component reporting unit of the City of Albany. CAC follows enterprise fund accounting; accordingly, the financial statements are presented using the economic resources management focus. These financial statements are presented in a manner similar to a private business.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of CAC's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Controller, Capitalize Albany Corporation, 21 Lodge Street, Albany, NY 12207.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF NET POSITION
December 31, 2014 and 2013

	2014	2013
Assets		
Current Assets:		
Cash and cash equivalents	**$ 4,088,738**	$ 3,651,644
Investments	**3,411,362**	2,857,394
Restricted cash	**515,528**	448,983
Mortgage notes receivable, current portion, net	**188,334**	161,754
Net investment in direct financing leases, current portion	**149,937**	206,438
Accrued interest receivable	**58,671**	63,325
Receivables from the City of Albany and City agencies	**101,013**	100,000
Total current assets	**8,513,583**	7,489,538
Noncurrent Assets:		
Mortgage notes receivable, less current portion, net	**2,633,771**	1,956,022
Other receivables	**85,812**	93,584
Net investment in direct financing leases, less current portion	**521,584**	1,532,442
Property held for investment and lease, net	**2,571,691**	3,358,704
Property and equipment, net	**403,264**	428,063
Other assets	**654,046**	655,752
Total noncurrent assets	**6,870,168**	8,024,567
Total assets	**$ 15,383,751**	$ 15,514,105
Deferred Outflows of Resources	**$ -**	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 253,576**	$ 192,740
Due to the City of Albany	**99,521**	99,507
Unearned grant and other income	**486,374**	921,170
Bonds payable, current portion	**300,000**	1,218,590
Total current liabilities	**1,139,471**	2,432,007
Noncurrent Liabilities:		
Bonds payable, less current portion	**2,350,000**	2,650,000
Revolving loan fund liability	**702,825**	702,248
Unearned program support	**80,997**	81,447
Total noncurrent liabilities	**3,133,822**	3,433,695
Total liabilities	**$ 4,273,293**	$ 5,865,702
Deferred Inflows of Resources	**$ -**	$ -
Net Position		
Net invested in capital assets	**$ 914,953**	$ 1,586,766
Restricted for:		
Debt service	**171,446**	171,401
CDBG eligible activities	**120,278**	118,822
Other program specific activities	**13,269**	9,035
Impact Downtown Albany	**-**	11,253
Unrestricted	**9,890,512**	7,751,126
Total net position	**$ 11,110,458**	$ 9,648,403

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
For the Years Ended December 31, 2014 and 2013

	2014	2013
Revenues		
Grant and contribution income	**$ 698,397**	$ 812,372
Rental income	**344,500**	378,408
Other interest and investment income	**170,426**	254,484
Interest income on mortgage notes	**88,737**	82,775
Gain on sale of properties	**1,457,824**	-
Fees and other income	**375,036**	340,478
Total revenues	**3,134,920**	1,868,517
Expenses		
Salaries and fringe benefits	**668,159**	644,284
Program and project costs	**592,458**	544,248
Professional and consulting expenses	**371,011**	341,719
Interest expense	**68,262**	86,666
Bad debt recovery	**(202,751)**	(25,490)
Other administrative expenses	**175,726**	195,785
Total expenses	**1,672,865**	1,787,212
Excess of revenues over expenses	**1,462,055**	81,305
Net Position, Beginning of Year	**9,648,403**	9,567,098
Net Position, End of Year	**$ 11,110,458**	$ 9,648,403

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows From Operating Activities		
Cash received from customers	**$ 545,091**	$ 582,948
Cash received from grantors and contributors	**668,165**	840,042
Other operating cash receipts	**374,136**	340,478
Cash payments to suppliers and grantees	**(859,974)**	(777,838)
Cash payments to employees	**(668,159)**	(644,284)
Net cash provided by operating activities	**59,259**	341,346
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of property	**1,661,383**	-
Purchase of property and equipment	**(8,928)**	(5,461)
Principal payments on bonds payable	**(1,218,590)**	(339,846)
Interest paid on bonds payable	**(74,452)**	(88,966)
Net cash provided by (used in) capital and related financing activities	**359,413**	(434,273)
Cash Flows From Investing Activities		
Interest on cash and cash equivalents and investments	**69,295**	84,434
Net increase in restricted cash	**(66,545)**	(61,264)
Proceeds from sales and maturities of investments	**2,668,552**	1,716,988
Purchase of investments	**(3,221,860)**	(1,785,829)
Issuance of mortgage notes receivable	**(900,000)**	-
Repayments received on mortgage notes and other receivables	**401,621**	759,142
Principal payments received under direct financing leases	**1,067,359**	188,751
Net cash provided by investing activities	**18,422**	902,222
Change in cash and cash equivalents	**437,094**	809,295
Cash and cash equivalents:		
Beginning of year	**3,651,644**	2,842,349
End of year	**$ 4,088,738**	$ 3,651,644

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of Excess of Revenues Over Expenses to Net Cash Provided by Operating Activities		
Excess of revenues over expenses	**$ 1,462,055**	$ 81,305
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	**212,181**	211,756
Adjustment for losses on mortgage notes and other receivables	**(203,201)**	(25,490)
Gain on sale of properties	**(1,457,824)**	-
Net realized and unrealized gains on investments	**(660)**	(43,389)
Interest income on cash and cash equivalents and investments	**(69,831)**	(80,285)
Interest expense on bonds payable	**68,262**	86,666
Changes in:		
Grants receivable	**-**	(37,500)
Receivables from the City of Albany and City agencies	**(1,013)**	-
Other receivables, accrued interest receivable and other assets	**11,919**	(9,045)
Accounts payable and accrued expenses	**67,026**	92,099
Due to the City of Albany	**14**	59
Unearned grant and other income	**(29,796)**	64,797
Unearned program support	**(450)**	-
Revolving loan fund liability	**577**	373
Net cash provided by operating activities	**$ 59,259**	$ 341,346

See notes to consolidated financial statements.

NOTE 1 — ORGANIZATION AND MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Mission

Capitalize Albany Corporation (CAC) was formed under the Not-for-Profit Corporation Laws of the State of New York in October 1979 for the purposes of facilitating the creation of new employment opportunities, retaining existing jobs and encouraging investment that will expand the commercial and industrial tax base within the City of Albany (City). CAC facilitates large scale transformational real estate projects to accomplish its mission.

CAC's mission is accomplished by providing technical support for City, State and other economic development programs and loaning money to new or existing businesses. Additionally, CAC has invested in certain real estate, and leases such real estate to businesses in order to further job opportunities within the City.

CAC formed Citywide Property Holdings, LLC (Citywide) in April 2008 for the limited purpose of assisting CAC in the furtherance of CAC's mission. CAC is the sole member and manager of Citywide. Citywide's participation in the furtherance of CAC's mission is evaluated on a project basis. This participation includes, but is not limited to, holding property as available for sale to enhance project development.

The consolidated financial statements represent the consolidated financial position and the consolidated changes in financial position and cash flows of CAC and Citywide. All intercompany transactions between CAC and Citywide have been eliminated for financial reporting purposes.

Component Unit Reporting

CAC is a component reporting unit of the City of Albany and, as such, is also reported in the City of Albany's general purpose financial statements.

Basis of Accounting and Presentation

CAC follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. CAC's consolidated financial statements apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Revenue Recognition

CAC, under Urban Development Action Grants (UDAG) financing arrangements through the United States Department of Housing and Urban Development (HUD), has recognized grant amounts as mortgage notes receivable, with corresponding credits to deferred program support. Principal repayments on these notes are recognized as program income and are applied against deferred program support. The UDAG agreements provide that the program income, together with the interest earned thereon, are restricted by HUD to be used for Title I eligible activities. The deferred program support account, in CAC's consolidated balance sheet, is a contra account which reflects UDAG loan principal repayments scheduled to be received in future years. There were no new UDAG grants in either 2014 or 2013.

NOTE 1 — ORGANIZATION AND MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash is comprised of various interest bearing and non-interest bearing deposits in several financial institutions. CAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents except for cash equivalents included in the investment account, which are included in investments in the accompanying consolidated balance sheets.

Investments

Investments are carried at fair value, based on current market prices.

Mortgage Notes Receivable and Allowance for Losses

As explained further in Note 5, mortgage notes receivable are carried at the principal amount outstanding, net of an allowance for estimated uncollectible amounts. CAC's allowance for losses is evaluated on a regular basis by management and is estimated based on delinquency rates, current economic conditions, borrowers' outstanding balances, an analysis of borrowers' financial condition, and estimated value of any underlying collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for losses is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries.

Loans made by CAC to recipient entities are generally issued as part of larger financial packages involving additional lenders. Substantially all of CAC's mortgage notes receivable, which are collateralized by real property and/or equipment, are subordinated to the loans provided by these other lenders. In some cases, projected growth and overall economic conditions have substantially changed since loan origination. CAC attempts to work with borrowers who are experiencing financial difficulties and has entered into debt restructuring agreements with respect to certain financially troubled borrowers. These restructuring agreements often incorporate notes, for which current repayment is contingent upon favorable future events as specified in the note agreement. Such uncertainties have been considered by CAC in establishing the estimated allowance for possible losses.

CAC places impaired loans on nonaccrual status and recognizes interest income on such loans only on a cash basis. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged off. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Property Held for Investment and Lease, Net

Property held for investment and lease is carried at the lower of cost or market and represents assets acquired to assist in CAC’s mission of encouraging economic development and business retention within the City.

Property and Equipment, Net

Property and equipment is stated at cost. Depreciation of property and equipment is provided using straight-line method over the estimated useful lives of the respective assets ranging from 5 years for equipment to 40 years for buildings.

NOTE 1 — ORGANIZATION AND MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Assets

In December 2011, Citywide Property Holdings, LLC executed a purchase option agreement for a development site on Central Avenue. Under the terms of the agreement, Citywide paid $500,000 at the time of the execution that will be applied to the purchase price of the property. Citywide can exercise the option at any time within five years from the date of the option. This amount is included in other assets in the consolidated statements of net position at December 31, 2014 and 2013.

The building located at 174 North Pearl Street is vacant and as of December 31, 2014 a plan of reuse has not been developed. The building is included in other assets in the consolidated statements of net position at December 31, 2014 and 2013, and CAC does not record depreciation on this asset.

Description of Leasing Arrangements

CAC, as part of its mission, has entered into arrangements leasing various parcels of real estate. These arrangements include both operating and direct financing leases. The lease terms range from one to thirty years.

Use of Estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

CAC is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Citywide's annual tax information filings are included with the annual filings of its sole member, CAC.

Net Position

In order to present consolidated financial condition and consolidated operating results of CAC in a manner consistent with limitations and restrictions placed upon the use of resources, CAC classifies net Position into three categories as follows:

Net invested in capital assets – This component of net position consists of property and equipment, including property held for investment and lease, net of accumulated depreciation, and reduced by the outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, when applicable, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on assets use through external constraints imposed by creditors, by law or regulation, or through enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "net invested in capital assets" or "restricted."

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation.

NOTE 1 — ORGANIZATION AND MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

For purposes of preparing these financial statements, CAC considered events through March 19, 2015, the date the financial statements were available for issuance.

NOTE 2 — CASH AND CASH EQUIVALENTS

CAC maintains its cash in bank accounts with several financial institutions.

CAC has not experienced any losses with respect to its cash and cash equivalents balances. Based on management's review of the strength of the financial institutions, management feels the risk of loss on its cash balances is minimal.

At December 31, 2014, the carrying amount and the bank balance of CAC's deposits were approximately $4,604,000 and $4,623,000, respectively. Of the bank balance, approximately $849,000 was insured under the FDIC coverage and approximately $2,211,000 was secured by bank pledged investment securities. Uncollateralized amounts approximated $1,563,000 at December 31, 2014, and were maintained with major financial institutions considered by management to be secure.

NOTE 3 — RESTRICTED CASH

Generally, restricted cash represents funds that have been placed in a segregated account that cannot be used for a purpose other than the purpose for which that account is designated. Restricted cash includes amounts restricted for the following purposes at December 31:

	2014	2013
CDBG eligible activities	$ 107,414	$ 100,034
EC/EDZ revolving loan fund	177,439	118,333
Debt service reserve	171,446	171,401
Hudson River Way campaign	59,229	59,215
Total restricted cash and cash equivalents	$ 515,528	$ 448,983

At December 31, 2014, the bank balance of restricted cash was approximately $516,000, which was insured under FDIC coverage.

NOTE 4 — INVESTMENTS

Investments consist of the following at December 31:

	2014		2013	
	Cost	Fair Value	Cost	Fair Value
Corporate Debt Securities	$ 906,429	$ 901,557	$ 841,195	$ 848,800
Certificates of Deposit	1,970,182	1,967,938	1,479,010	1,476,482
Equities	295,565	443,536	266,448	395,629
Other	98,331	98,331	136,483	136,483
Total	$ 3,270,507	$ 3,411,362	$ 2,723,136	$ 2,857,394

NOTE 4 — INVESTMENTS (Continued)

Unrealized gains of approximately $7,000 and $70,000 at December 31, 2014 and 2013, respectively, are included in other interest and investment income in the consolidated statements of revenue and expenses and changes in net position.

NOTE 5 — MORTGAGE NOTES RECEIVABLE, NET

CAC's mortgage notes receivable are comprised of 41 individual accounts at December 31, 2014 and 2013, with an average outstanding principal balance approximating $119,000 and $107,000, respectively.

Repayment terms and interest rates on mortgage loans vary with each loan. Generally, interest rates range from 0% to 9% per year, with the average yield on all loans approximating 5% for the years ended December 31, 2014 and 2013. Maturities range from the short-term through the year 2080.

Substantially all mortgage notes are collateralized by a subordinate interest in real property and/or equipment.

The composition of mortgage notes receivable by funding source is as follows at December 31:

	2014		2013	
	Number of Notes	Amount	Number of Notes	Amount
CDBG	2	$ 40,452	2	$ 46,377
UDAG	15	961,905	15	962,805
Other	24	3,889,241	24	3,384,037
	41	4,891,598	41	4,393,219
Less allowance for losses		(2,069,493)		(2,275,443)
Mortgage notes receivable, net		2,822,105		2,117,776
Less: Current portion		188,334		161,754
Noncurrent		$ 2,633,771		$ 1,956,022

Of the total mortgage receivable balance approximately $495,000 and $548,000 as of December 31, 2014 and 2013, respectively, is due from the Albany Community Development Agency (ACDA), another component unit of the City of Albany.

The recorded investment in mortgage notes receivable that are considered to be impaired approximated $2,357,000 and $2,366,000 at December 31, 2014 and 2013, respectively. The allowance for losses related to impaired loans approximated $2,068,000 and $2,275,000 at December 31, 2014 and 2013, respectively. Interest income recognized on impaired mortgage notes receivable, while such mortgage notes receivable were impaired, was approximately $3,500 and $4,500 for 2014 and 2013, respectively.

NOTE 6 — RECEIVABLES FROM THE CITY OF ALBANY AND CITY AGENCIES

There was a receivable from ACDA in the amount of approximately $101,000 and $100,000 related to reimbursable expenditures incurred under the CDBG program at December 31, 2014 and 2013, respectively.

NOTE 7 — PROPERTY HELD FOR INVESTMENT AND LEASE, NET

The following is a summary of changes in property held for investment and lease for the year ended December 31, 2014:

	January 1, 2014	Additions	Dispositions	Reclassification	Impairment	December 31, 2014
Riverfront Bar & Grill - Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
677 Broadway	449,000	-	(449,000)	-	-	-
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-	-	-	25,000
245 Lark Street	165,437	-	(165,437)	-	-	-
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
	5,368,384	-	(614,437)	-	-	4,753,947
Less accumulated depreciation	2,009,680	178,454	(5,878)	-	-	2,182,256
	$ 3,358,704					$ 2,571,691

The following is a summary of changes in property held for investment and lease for the year ended December 31, 2013:

	January 1, 2013	Additions	Dispositions	Reclassification	Impairment	December 31, 2013
Riverfront Bar & Grill - Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
677 Broadway	449,000	-	-	-	-	449,000
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-		-	25,000
245 Lark Street	-	1,850	-	163,587	-	165,437
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
	5,202,947	1,850	-	163,587	-	5,368,384
Less accumulated depreciation	1,831,291	178,389	-	-	-	2,009,680
	$ 3,371,656					$ 3,358,704

During 2013, as a result of the termination of a direct financing lease related to 245 Lark Street, the asset was reclassified from net investment in direct financing lease to property held for investment and lease, net.

NOTE 8 — PROPERTY AND EQUIPMENT, NET

The following is a summary of changes in property and equipment for the year ended December 31, 2014:

	January 1, 2014	Additions	Dispositions	December 31, 2014
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	460,806	4,605	-	465,411
Furniture and equipment	135,639	4,323	-	139,962
Total	645,745	8,928	-	654,673
Less accumulated depreciation	217,682	33,727	-	251,409
	$428,063	$ (24,799)	$ -	$ 403,264

The following is a summary of changes in property and equipment for the year ended December 31, 2013:

	January 1, 2013	Additions	Dispositions	December 31, 2013
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	460,806	-	-	460,806
Furniture and equipment	132,028	3,611	-	135,639
Total	642,134	3,611	-	645,745
Less accumulated depreciation	184,315	33,367	-	217,682
	$457,819	$ (29,756)	$ -	$ 428,063

Depreciation expense, including depreciation expense on property held for investment and lease, was approximately $212,000 for each of the years ended December 31, 2014 and 2013.

NOTE 9 — OPERATING LEASES

CAC leases the Quackenbush Square Parking Lot, Riverfront Bar & Grill, the Quackenbush House, and Corning Preserve Project, all classified as property held for investment and lease (see Note 7), to help accomplish its economic development goals.

The following is a schedule by year of the minimum future rentals to be received on non-cancellable operating leases as of December 31, 2014:

2015	$ 253,915
2016	182,332
2017	181,635
2018	191,447
2019	201,249
Thereafter	1,152,926
	$2,163,504

NOTE 9 — OPERATING LEASES (Continued)

CAC leases the Corning Preserve Project to the Albany Port District Commission (the "Port"), another component unit of the City, under a shared use and lease agreement (see Note 15). The shared use and sublease agreement has a thirty year term. Under the shared use and lease agreement the Port is obligated to make lease payments sufficient to cover all related bond debt service and certain other expenses. The annual rent payments due from the Port will change on a year to year basis as a result of the variable interest rate associated with the bonds, the amortization schedule of the bonds and bond prepayments. CAC is recognizing the base rental income on a straight-line basis (approximately $148,000 per year) over the life of the lease based on the lease factors at inception of the lease. For each of the years ended December 31, 2014 and 2013, rental income approximated $148,000. Increases or decreases to the base rental income result from changes in lease factors occurring subsequent to the inception of the lease and are recognized as contingent rentals in the period that the changes take place.

NOTE 10 — NET INVESTMENT IN DIRECT FINANCING LEASES

The following lists the components of the net investment in direct financing leases as of December 31:

	2014	2013
Total minimum lease payments to be received	$ 823,697	$2,182,926
Less: amounts representing executory costs (such as insurance) included in total minimum lease payments	-	-
Net minimum lease payments receivable	823,697	2,182,926
Less: unearned income	(152,176)	(444,046)
Net investment in direct financing leases	671,521	1,738,880
Less: current portion	149,937	206,438
Noncurrent	$ 521,584	$1,532,442

Minimum future lease payments to be received, as of December 31, 2014, for the remaining lease terms, are as follows:

2015	$ 215,588
2016	206,818
2017	203,072
2018	198,219
Total minimum lease payments to be received	$ 823,697

NOTE 10 — NET INVESTMENT IN DIRECT FINANCING LEASES (Continued)

Net investment in direct financing leases is comprised primarily of the following leases with related parties:

A lease with ACDA, related to a facility located at 200 Henry Johnson Boulevard. In addition, a master lease agreement with the City guarantees the required lease payments of ACDA. The lease with ACDA required an up-front payment of $300,000 and variable semi-annual payments over the remaining lease term (payments approximate $190,000 annually). Portions of the payments are utilized by CAC to fund their debt service obligation for the related bonds payable (see Note 12). The lease has a twenty-five year term and matures in March 2018. The net investment in the lease approximated $619,000 and $739,000 as of December 31, 2014 and 2013, respectively. Income earned during 2014 and 2013 approximated $70,000 and $82,000, respectively.

A lease with the Port, related to a warehouse facility. In 2004, the lease with the Port was amended to reflect CAC's refinancing related bonds payable (see Note 12). The lease amendment with the Port required monthly payments of $8,718 which was equivalent to CAC's debt service obligation for related bonds payable (see Note 12). The lease matured in November 2014. The net investment in the lease approximated $929,000 as of December 31, 2013 (none at December 31, 2014). Income earned during 2014 and 2013 approximated $30,000 and $40,000, respectively.

A lease with the City, related to the Albany Police Department's North Station, requiring annual payments of $22,088. The lease has a twenty year term and matures in July 2018. The net investment in the lease approximated $53,000 and $71,000 as of December 31, 2014 and 2013, respectively. Income earned during 2014 and 2013 approximated $3,000 and $4,000, respectively.

NOTE 11 — DUE TO THE CITY OF ALBANY

Due to the City of Albany consists of the following at December 31:

	2014	2013
Professional services fee payable	$ 40,000	$ 40,000
Hudson River Way project	59,521	59,507
	$ 99,521	$ 99,507

During 2012, CAC entered into a professional services agreement with the City of Albany. Under this agreement the City of Albany provides economic development, planning, and community development consultancy services in furtherance of CAC's mission. The fee under the agreement is determined annually. CAC's fee to the City of Albany under this agreement totaled $160,000 for each of the years ended December 31, 2014 and 2013. The agreement carries a one-year term with automatic consecutive one-year renewals unless terminated by either party. During 2014, this agreement was replaced with a new five-year term agreement with the City of Albany effective for 2015.

NOTE 12 — BONDS PAYABLE

The following is a summary of changes in bonds payable for the year ended December 31, 2014:

	January 1, 2014	Increases	Decreases	December 31, 2014
Bonds Payable:				
AIDA Port Warehouse Project (A)	$ 928,590	$ -	$ (928,590)	$ -
AIDA Henry Johnson Boulevard Project (B)	720,000	-	(130,000)	590,000
AIDA Corning Preserve Project (C)	2,220,000	-	(160,000)	2,060,000
	3,868,590	-	(1,218,590)	2,650,000
Less current maturities	1,218,590			300,000
	$ 2,650,000			$ 2,350,000

The following is a summary of changes in bonds payable for the year ended December 31, 2013:

	January 1, 2013	Increases	Decreases	December 31, 2013
Bonds Payable:				
AIDA Port Warehouse Project (A)	$ 993,436	$ -	$ (64,846)	$ 928,590
AIDA Henry Johnson Boulevard Project (B)	840,000	-	(120,000)	720,000
AIDA Corning Preserve Project (C)	2,375,000	-	(155,000)	2,220,000
	4,208,436	-	(339,846)	3,868,590
Less current maturities	339,846			1,218,590
	$ 3,868,590			$ 2,650,000

(A) CAC functioned as the conduit agency in connection with a 1994 bond issue of the Albany Industrial Development Agency (AIDA), another component unit of the City, in the amount of $1,675,000. The net proceeds were utilized to fund a project to construct a building for the Port. The transaction has been recorded at the amount of debt assumed under the bond issue. The building is leased to the Port under a related lease agreement that has been classified as a direct financing lease (see Note 10). In 2004, the 1994 bond was refinanced through the issuance of a 2004A bond of the AIDA in the amount of $1,430,000. The 2004A bond required monthly payments of principal and interest in the amount of $8,718, with interest at a rate of 4.07% per annum. Accordingly, the lease with the Port was amended in 2004 (see Note 10). The bond matured in November 2014.

(B) CAC functioned as the conduit agency in connection with a 1994 bond issue of the AIDA in the amount of $1,975,000. The net proceeds were utilized to fund a project to construct a building for the City and City Agencies. The transaction has been recorded at the amount of debt assumed under the bond issue. The bonds require semi-annual payment of interest and the interest rate is adjusted every five years. Principal payments are required annually on March 1 in prescribed amounts currently ranging from $120,000 to $160,000. The obligation matures in March 2018. The interest rate at December 31, 2014 was 5.75%. The building is leased to ACDA under a related lease agreement that has been classified as a direct financing lease (see Note 10).

NOTE 12 — BONDS PAYABLE (Continued)

(C) CAC functioned as the conduit agency in connection with a 2002 Civic Facility Revenue bond issue of the AIDA in the amount of $4,390,000. The proceeds were utilized to fund a project that includes the construction of various improvements to the Corning Preserve Park. The obligation requires monthly payment of interest and the interest rate is adjusted weekly. The bonds are secured by a letter of credit issued by Key Bank. The letter of credit requires principal payments on the outstanding bonds, annually on May 1, in prescribed amounts currently ranging from $155,000 to $255,000. The letter of credit also requires principal payments on the outstanding bonds if certain grant proceeds related to the Corning Preserve Project are received. The bonds mature in May 2027. The interest rate at December 31, 2014 was 0.1%. The Corning Preserve Project is leased to the Port under a related agreement that has been classified as an operating lease (see Note 9).

At December 31, 2014, principal and interest requirements to maturity are as follows:

	Principal	Interest
2015	$ 300,000	$ 32,033
2016	320,000	23,810
2017	330,000	15,148
2018	350,000	6,047
2019	200,000	1,249
2020 - 2024	1,150,000	2,926
	$ 2,650,000	$ 81,213

NOTE 13 — REVOLVING LOAN FUND LIABILITY

In June 1999, CAC was awarded a grant of $643,291 to establish and operate a revolving loan fund to benefit prospective or existing Enterprise Community and/or Economic Development Zone (EC/EDZ) businesses. Generally, repayments on loans originated are to be recycled back into the loan fund to provide additional loans. However, with approval from the Empire State Development Corporation ("ESDC"), interest generated from the loans can be recorded as revenue to the extent that it offsets administrative expenses related to operating the loan fund. Approximately $30,000 and $33,000 of such revenue was recognized for the years ended December 31, 2014 and 2013, respectively.

NOTE 14 — RETIREMENT PLAN

Simplified Employee Pension Plan (SEP-IRA)

Plan Description: Simplified Employee Pension Plan is an employer-funded retirement plan with 100% immediate vesting. Maximum employee limit is 25% of gross compensation not to exceed $52,000. Distributions taken prior to age 59 ½ may be subject to 10% premature penalty tax in addition to ordinary income tax. The Plan must be adopted and funded by employer's tax filing deadline, plus extensions, for prior year deductibility.

NOTE 14 — RETIREMENT PLAN (Continued)

Simplified Employee Pension Plan (SEP-IRA) (Continued)

Funding Requirements: CAC has elected to contribute 11% of an eligible employee's compensation annually to the SEP-IRA. During 2014 and 2013, nine and six employees were covered by the SEP-IRA, and total contributions were approximately $73,000 and $41,000, respectively.

Post Employment Benefit

CAC does not offer post employment benefit to its employees.

NOTE 15 — CORNING PRESERVE PROJECT

CAC, in 2002, functioned as the conduit agency with several related parties related to a project to construct various improvements to a portion of the Corning Preserve Park (Corning Preserve Project). CAC entered into an interim use and ground lease agreement with the City providing for a ground lease of the property owned by the City, underlying the Corning Preserve Project. The interim use and ground lease agreement has a thirty-five year term and provides for a nominal rent payment. At the end of the lease term the Corning Preserve Project reverts to the City.

CAC entered into a lease agreement with the AIDA to sublease the property to the AIDA. The sublease expires at the earlier of a date requested by CAC or the completion date of the Corning Preserve Project. The lease agreement provides for a nominal payment. CAC also entered into an installment sale agreement with the AIDA pursuant to which CAC is obligated, among other things, to complete the Corning Preserve Project as the agent of the AIDA and the AIDA sells the Corning Preserve Project to CAC on an installment basis. CAC's payments under the installment sale agreement are equivalent to the debt service requirements on the $4,390,000 in 2002 Civic Facility Revenue Bonds issued by the AIDA to fund the Corning Preserve Project, which is accounted for as bonds payable (see Note 12).

CAC entered into a shared use and sublease agreement with the Port. Under the shared use and sublease agreement the Port is obligated to perform on behalf of CAC, CAC's obligations under the interim use and ground lease agreement and the installment sale agreement. Also under the shared use and sublease agreement, which is accounted for as an operating lease, the Port is obligated to fund CAC's obligations relating to the Corning Preserve Project, including funding payments sufficient to cover all related bond debt service and certain other expenses (see Note 9).

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Capitalize Albany Corporation

We have audited, in accordance with the 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 consolidated financial statements of Capitalize Albany Corporation (a component reporting unit of the City of Albany), which comprise the consolidated statement of net position as of December 31, 2014, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Capitalize Albany Corporation'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capitalize Albany Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Capitalize Albany Corporation'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 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 Capitalize Albany Corporation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

UHY LLP

Albany, New York
March 19, 2015