CAPITALIZE ALBANY CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

CAPITALIZE ALBANY CORPORATION

TABLE OF CONTENTS

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, which comprise the consolidated statements of net position as of December 31, 2018 and 2017, 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, 2018 and 2017, 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 8 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 5, 2019, 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 5, 2019

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of Capitalize Albany Corporation (Capitalize Albany or the Corporation) activities and financial performance, is offered as an introduction and overview of the consolidated financial statements of Capitalize Albany Corporation for the fiscal year ended December 31, 2018. Following this MD&A are the basic consolidated financial statements of the Corporation 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 Capitalize Albany Corporation's financial operations.

Capitalize Albany Corporation 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 the Corporation's Board of Directors on an annual basis. Capitalize Albany Corporation 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. The Governance Committee meets twice a year or more frequently if necessary to among other things review and update corporate governance principles and practices. Not less than six times annually, the Board of Directors of Capitalize Albany Corporation meets to discuss programming needs, project activity and progress, and meets quarterly to discuss the Corporation's financial position. The Audit Committee meets twice a year among other things to appoint and oversee the Corporation's independent auditors, review and approve the Corporation's year-end financial statements and reviews the effectiveness of internal controls. In addition, the Audit Committee, 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. The Corporation 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 Capitalize Albany Corporation is to facilitate strategic economic development and stimulate transformative investment throughout the City of Albany, making New York's Capital a vibrant place to thrive.

As a catalyst for economic growth, Capitalize Albany Corporation facilitates transformational development projects. As a registered 501(c) (3) non-profit organization, the Corporation implements programs and resources to create, retain, and attract business in the City of Albany. Powered by investors composed of Albany's community and business leaders, Capitalize Albany manages and coordinates the local economic development functions in the City of Albany.

The Corporation takes an integrated approach and its work is reflected through its business and real estate development activities, and its strategic initiatives. These efforts are developed in partnership with regional stakeholders, and are backed by market analysis and trend identification. Implementation of its initiatives is accomplished through direct efforts of the Corporation as well as through collaboration with complementary organizations and tools.

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Business Development

Capitalize Albany encourages job creation and business development through its work with individual businesses. This work includes, but is not limited to, extending grants and loans to new and existing businesses, providing technical support with respect to accessing city, state and other economic development resources, and helping businesses to identify appropriate locations to grow and expand within the City. Capitalize Albany staff worked with more than 100 businesses in 2018. Capitalize Albany also works with government officials, business leaders, community and neighborhood organizations, and the public to ensure that the City maintains and enhances an environment that is both conducive to new business growth and supportive of the expansion of existing enterprises.

The Corporation has recently committed to the administration of three distinct grant programs. The Amplify Albany Grant Program was developed to create a buzz in the City's commercial districts and drive patrons to businesses. The program will promote the City's commercial corridors and businesses through the funding of events and other initiatives that engage residents and attract additional visitors. The Downtown Retail Grant Program is designed to create an incentive to attract new and enhance existing retail businesses in strategic areas of downtown assisting with costs associated with renovating or preparing commercial space for an eligible retail use. The City of Albany Small Business Facade Improvement Program creates opportunities for eligible, small businesses and not-for-profit entities to complete individual façade improvement projects that improve the appearance of their exterior facade where the business is located, making their business and neighborhood more attractive, more interesting, and more inviting.

Capitalize Albany Corporation facilitates real estate transactions to expand and enhance business development and investment opportunities.

Real Estate Development

Capitalize Albany facilitates real estate development in the City of Albany through programs and partnerships as well as brick and mortar projects of its own. For example, the Corporation marketed the 526 Central Avenue property for commercial redevelopment and in December 2018 the property was purchased by The Swinburne Building, LLC for redevelopment. The $25.1 million redevelopment at 526 Central Avenue will bring 74 affordable housing units, a primary care center and accessible services to 526 Central Avenue through a partnership with new property owner, Whitney Young Health and Equinox. The newly constructed mixed-use development will strengthen the Central Avenue business district. During construction the project is estimated to generate a county-wide economic impact of more than $28 million and more than $5 million annually once completed.

In 2010, the Corporation's Board of Directors established a Revolving 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, 2018, $2,575,000 has been disbursed under this revolving loan fund program representing over $32 million of project investment within the City of Albany. These projects have created 165 market-rate rental units.

Contracted under a professional services agreement, Capitalize Albany 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 2018, several organizations utilized the programs and incentives of the CAIDA; the approval of the projects will result in over $280 million of investment within the City of Albany. These projects are anticipated to create or retain nearly 865 temporary and permanent jobs within the City and create more than 725 units of both affordable and market-rate housing.

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Strategic Initiatives

The revitalization of Downtown Albany is a strategic priority of Capitalize Albany Corporation. In response to the recognized need for a common vision, strategic direction, and tactical solutions to issues facing the Downtown neighborhood, Capitalize Albany began working with a consultant team in 2013 to prepare a tactical revitalization plan for Downtown Albany. This tactical revitalization plan, the Impact Downtown Albany strategy, was completed and launched in 2014.

Impact Downtown Albany is a strategic plan which positions Downtown, its adjacent warehouse district and waterfront as the ideal urban center. Impact Downtown Albany provides bold, creative and actionable recommendations that honor Downtown Albany's rich history, capitalize on current momentum and maximize its future potential as the heart of New York State's "Tech Valley." The deliverables created by this project have provided a clear path forward for projects, incentives and structural changes and define what Downtown Albany should be striving toward throughout the next decade.

Implementation of Impact Downtown Albany began in 2014 and continues to be a driving force behind much of the growth seen in the City of Albany. Through December 31, 2018, Impact Downtown Albany has led to more than $330 million of project investment recently completed and underway within the City of Albany. Facilitating the creation of Downtown residential units continues to be a priority and will act as a driving market force for economic development. Under Impact Downtown Albany the Corporation has assisted in the creation of more than 520 units to date. More than 330 are currently under construction.

In 2015, the Impact Downtown Albany strategy served as a core guiding document for the creation of the Capital Region Economic Development Council's transformative strategy, the Capital 20.20 Plan. Capital 20.20 positions Albany to achieve its potential and capture its share of the global market. The Plan's Metro section prioritizes downtown development and matches Impact Downtown Albany catalyst sites with developers, resources, and prospective tenants to build on the current momentum and move aggressive projects forward.

Implementation of Capital 20.20 began in 2015 and will continue to be a priority for the Corporation in coming years.

In December 2016 the Capitalize Albany Corporation was awarded an CFA project, as part of Governor Cuomo's Regional Economic Development Councils Initiative, which is the first phase of a multi-phase proposed project that will ultimately result in the conversion of the I-787 northbound exit ramp from Quay Street to Clinton Avenue — into the Region's first and only highline park — the Albany Skyway. The Albany Skyway's Phase I entailed a feasibility study including assessments, planning, preliminary design and other related activities. This phase was completed in 2018. As part of this project Capitalize Albany Corporation hosted a series of public workshops and stakeholder meetings that engaged and informed the public regarding the Skyway's design and engineering. On Thursday, August 9, 2018 at the Palace Theatre, the engineering, design and economic analyst team discussed the findings of the Skyway feasibility study and presented the final recommended concept based on the community's input. The completed feasibility study has readied the project to move forward with detailed construction-ready drawings to begin implementation of individual components of the park. With Governor Cuomo's 2018 announcement of $3.1 million of DOT-funding, the project is able to move forward immediately by decommissioning the ramp and supporting all of the baseline requirements to convert the underutilized infrastructure and open the park. The City of Albany is seeking additional external funds to enhance the park with amenities that will maximize the usage and impact of this new, transformational asset.

In December 2017, the Corporation entered into a Purchase and Sale Agreement with the Albany Convention Center Authority (ACCA) for transfer of property interests in the roughly five acre ACCA surplus property surrounding Liberty Park in downtown Albany. This development site was highlighted as a priority in both the Impact Downtown Albany and Capital 20.20 plans.

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2018, the Corporation formed Liberty Square Development, LLC. This entity was formed to aid in the revitalization efforts to acquire and develop properties related to Liberty park site redevelopment.

The Corporation continues to follow the citywide economic development plan laid out in the Capitalize Albany Strategy. This strategy builds on strengths in the City's numerous employment and educational centers and addresses economic development projects in distressed neighborhoods. As guided by the Capitalize Albany Strategy, the Corporation has assisted in the more than $1 billion of activity that has occurred in areas outside of Downtown.

FINANCIAL OPERATIONS HIGHLIGHTS

Capitalize Albany Corporation'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, 2018 and 2017 is shown below:

	2018	2017
Total revenues	$1,932,979	$1,517,868
Total expenses	1,999,490	1,387,261
Excess of (expenses over revenues) revenues over expenses	$ (66,511)	$ 130,607

Total revenues increased $415,111 or 27%:

- Grant and contribution income increased $454,714 or 83% from $548,417 in 2017 to $1,003,131 in 2018. Revenue derived from grants and contribution is typically program specific and non-recurring. Significant grants and contributions in 2018 include $250,000 from the City of Albany IDA (CAIDA) and $165,843 from the Albany Community Development Agency, both for general economic development support and $311,269 from NYS Office of Parks, Recreation & Historic Preservation for the Skyway project. Additionally, revenue totaling $194,419 was recognized for activity under the Amplify Albany, Downtown Retail and Façade grant programs.

- Rental income decreased $557 or less than 1% from $300,844 in 2017 to $300,287 in 2018. This is primarily attributable to loss of rental income from one lease in 2018.

- Other interest and investment income decreased $92,655 or 57% from $161,236 in 2017 to $68,581 in 2018 primarily due to a decrease in the change in fair market value of investments in addition to a decrease in income earned under capital leases due to the expiration of the lease agreements at 200 Henry Johnson Blvd. and 170 Henry Johnson Blvd.

- Interest income on mortgage notes decreased $7,644 or 9% from $82,002 in 2017 to $74,358 in 2018 due to early loan payoffs as well as a new loan that did not close until the end of 2018.

- Gain on sale of property in 2018 was $69,555. This is attributable to the Corporation exercising its purchase option on 526 Central Avenue and then selling the property for development.

- Fees, program, and other income decreased $8,302 or 2% from $425,369 in 2017 to $417,067 in 2018. This is primarily attributable to lower administration fees collected in 2018.

Total expenses increased $612,229 or 44%:

- Salaries and fringe benefits increased $56,299 or 8% from $704,341 in 2017 to $760,340 in 2018. This increase is primarily attributable to market and merit based increases.
- Program and project costs increased $559,396 or 176% from $317,891 in 2017 to $877,287 in 2018. The increase is primarily attributable to the work performed on the NYS Office of Parks, Recreation & Historic Preservation Grant for the Skyway project, grants awarded from Capitalize Albany's Amplify Albany, Downtown Retail and Façade grant programs, and continued due diligence expenses for the potential purchase of the Liberty Park properties from ACCA.
- Professional and consulting expenses increased $7,742 or 4% from $217,431 in 2017 to $225,173 in 2018. This increase is attributable to higher consulting fees incurred by the Corporation as it relates to supporting the Corporation's competiveness, staff changes and existing employees.
- Interest expense decreased $2,701 or 11% from $25,255 in 2017 to $22,554 in 2018. This decrease is attributable to a reduction in interest expense due to the payoff of bonds related to the 200 Henry Johnson Blvd. project, partially offset by an increase in interest rates on variable rate bonds.
- Bad debt expense totaled $1,017 in 2017 compared to $0 in 2018.
- Other administrative expenses decreased $7,490 or 6% from $121,326 in 2017 to $113,836 in 2018. This decrease is attributable to the Corporation's Board of Directors' further support of the corporation's programming and activities by voting to eliminate service compensation.

A condensed summary of Capitalize Albany's net position at December 31, 2018 and 2017 is shown below:

	2018	2017
Assets		
Cash and cash equivalents	$ 5,912,121	$ 4,916,051
Investments	3,645,346	3,626,381
Restricted cash	621,837	727,063
Other assets	669,710	883,992
Mortgage notes receivable, net of allowances	1,465,222	1,894,374
Net investment in direct financing leases	-	188,148
Property, plant and equipment, net (includes property held for investment and lease)	2,216,960	2,375,544
Total assets	$ 14,531,196	$ 14,611,553
Deferred Outflows of Resources	$ -	$ -
Liabilities		
Bonds payable	$ 1,350,000	$ 1,700,000
Other liabilities	1,386,691	1,053,072
Unearned program support and revolving loan fund liability	693,863	691,328
Total liabilities	$ 3,430,554	$ 3,444,400
Deferred Inflows of Resources	$ -	$ -
Net Position		
Net investment in capital assets	$ 856,000	$ 835,543
Restricted net position	122,823	292,515
Unrestricted net position	10,121,819	10,039,095
Total net position	$ 11,100,642	$ 11,167,153

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

In 2019, Capitalize Albany will focus on the continuing implementation of the Impact Downtown Albany Strategic Plan. This Plan has identified 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.

Capitalize Albany Corporation will also continue to focus on the implementation of the specific components of the Capital 20.20 Plan which are consistent with the mission of the Corporation. Special focus will be given to those projects which directly align with the objectives of Impact Downtown. Both, the development of property surrounding Liberty Park and the Albany Skyway project are examples of these strategic plans' implementation.

Capitalize Albany will also 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

Capitalize Albany Corporation'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). Capitalize Albany Corporation is organized under the Not-For-Profit Corporation laws of the State of New York. Capitalize Albany 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 the Corporation'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, 2018 and 2017

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	**$ 5,912,121**	$ 4,916,051
Investments	**3,645,346**	3,626,381
Restricted cash	**621,837**	727,063
Mortgage notes receivable, current portion, net	**132,373**	132,133
Net investment in direct financing leases, current portion	**-**	188,148
Accrued interest receivable	**21,858**	26,602
Grant receivables	**411,269**	100,000
Total current assets	**10,744,804**	9,716,378
Noncurrent Assets:		
Mortgage notes receivable, less current portion, net	**1,332,849**	1,762,241
Other receivables, net	**96,178**	96,256
Property held for investment and lease, net	**1,880,719**	2,045,243
Property and equipment, net	**336,241**	330,301
Other assets	**140,405**	661,134
Total noncurrent assets	**3,786,392**	4,895,175
Total assets	**$ 14,531,196**	$ 14,611,553
Deferred Outflows of Resources	**$ -**	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 382,970**	$ 110,439
Funds held related to Hudson River Way campaign	**59,521**	59,521
Unearned grant and other income	**944,200**	883,112
Bonds payable, current portion	**200,000**	350,000
Total current liabilities	**1,586,691**	1,403,072
Noncurrent Liabilities:		
Bonds payable, less current portion	**1,150,000**	1,350,000
Revolving loan fund liability	**673,479**	670,944
Unearned program support	**20,384**	20,384
Total noncurrent liabilities	**1,843,863**	2,041,328
Total liabilities	**$ 3,430,554**	$ 3,444,400
Deferred Inflows of Resources	**$ -**	$ -
Net Position		
Net invested in capital assets	**$ 856,000**	$ 835,543
Restricted for:		
Debt service	**-**	171,466
CDBG eligible activities	**114,633**	114,288
Other program specific activities	**8,190**	6,761
Unrestricted	**10,121,819**	10,039,095
Total net position	**$ 11,100,642**	$ 11,167,153

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, 2018 and 2017

	2018	2017
Revenues		
Grant and contribution income	**$ 1,003,131**	$ 548,417
Rental income	**300,287**	300,844
Other interest and investment income	**68,581**	161,236
Interest income on mortgage notes	**74,358**	82,002
Gain on sale of property	**69,555**	-
Fees, program, and other income	**417,067**	425,369
Total revenues	**1,932,979**	1,517,868
Expenses		
Salaries and fringe benefits	**760,640**	704,341
Program and project costs	**877,287**	317,891
Professional and consulting expenses	**225,173**	217,431
Interest expense	**22,554**	25,255
Bad debt recovery	**-**	1,017
Other administrative expenses	**113,836**	121,326
Total expenses	**1,999,490**	1,387,261
Excess of (expenses over revenues) revenues over expenses	**(66,511)**	130,607
Net Position, Beginning of Year	**11,167,153**	11,036,546
Net Position, End of Year	**$ 11,100,642**	$ 11,167,153

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows From Operating Activities		
Cash received from customers	**$ 305,986**	$ 433,262
Cash received from grantors and contributors	**755,485**	540,401
Other operating cash receipts	**405,960**	409,583
Cash payments to suppliers and grantees	**(750,913)**	(446,061)
Cash payments to employees	**(760,640)**	(704,341)
Net cash (used in) provided by operating activities	**(44,122)**	232,844
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of property	**700,000**	-
Purchase of held for investment and lease	**(10,958)**	-
Purchase of property and equipment	**(20,243)**	-
Principal payments on bonds payable	**(350,000)**	(330,000)
Interest paid on bonds payable	**(25,621)**	(28,130)
Net cash provided by (used in) capital and related financing activities	**293,178**	(358,130)
Cash Flows From Investing Activities		
Interest on cash and cash equivalents and investments	**61,886**	59,200
Net increase in restricted cash	**105,226**	(87,287)
Proceeds from sales and maturities of investments	**2,238,428**	2,967,537
Purchase of investments	**(2,286,933)**	(3,013,338)
Issuance of mortgage notes receivable	**(100,000)**	-
Repayments received on mortgage notes and other receivables	**540,259**	572,301
Principal payments received under direct financing leases	**188,148**	172,660
Net cash provided by investing activities	**747,014**	671,073
Change in cash and cash equivalents	**996,070**	545,787
Cash and cash equivalents:		
Beginning of year	**4,916,051**	4,370,264
End of year	**$ 5,912,121**	$ 4,916,051

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2018 and 2017

	2018	2017
Reconciliation of Excess of (Expenses Over Revenues) Revenues Over Expenses to Net Cash (Used in) Provided by Operating Activities		
Excess of (expenses over revenues) revenues over expenses	**$ (66,511)**	$ 130,607
Adjustments to reconcile excess of (expenses over revenues) revenues over expenses to net cash (used in) provided by operating activities:		
Depreciation and amortization	**189,785**	199,428
Adjustment for losses on mortgage notes and other receivables	**(11,107)**	67,304
Gain on sale of properties	**(69,555)**	-
Net realized and unrealized losses (gains) on investments	**29,540**	(54,917)
Interest income on cash and cash equivalents and investments	**(67,220)**	(60,434)
Interest expense on bonds payable	**22,554**	25,255
Changes in:		
Grant receivables	**(311,269)**	12,331
Other receivables, accrued interest receivable and other assets	**(99,560)**	4,531
Accounts payable and accrued expenses	**275,598**	11,159
Unearned grant and other income	**61,088**	(21,769)
Unearned program support	**-**	(46,981)
Revolving loan fund liability	**2,535**	(33,670)
Net cash (used in) provided by operating activities	**$ (44,122)**	$ 232,844

See notes to consolidated financial statements.

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

Organization and Mission

Capitalize Albany Corporation (the "Corporation") 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). The Corporation facilitates large scale transformational real estate projects to accomplish its mission.

The Corporation'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, the Corporation has invested in certain real estate, and leases such real estate to businesses in order to further job opportunities within the City.

The Corporation formed Citywide Property Holdings, LLC (Citywide) in April 2008 for the limited purpose of assisting the Corporation in the furtherance of the Corporation's mission. The Corporation is the sole member and manager of Citywide. Citywide's participation in the furtherance of the Corporation'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 Corporation formed Liberty Square Development, LLC in January 2018 for the limited purpose of assisting the Corporation in the furtherance of the Corporation's mission. The Corporation is the sole member and manager of Liberty Square Development, LLC. Liberty Square Development LLC's operations includes, but are not limited to, the acquisition, disposition and development of properties located in the Liberty Park area of Downtown Albany.

The consolidated financial statements represent the consolidated financial position and the consolidated changes in financial position and cash flows of the Corporation, Citywide, and Liberty Park Development, LLC. All intercompany transactions between the Corporation, Citywide, and Liberty Park Development, LLC have been eliminated for financial reporting purposes.

Basis of Accounting and Presentation

The Corporation follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Capitalize Albany Corporation'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

Grant and contribution income

Grants, contributions, and similar items are recognized as revenue when all requirements imposed by the grantor or contributor, if any, have been satisfied.

Rental income

Rental income is recognized as earned over the term of the related lease arrangements.

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

Revenue Recognition (Continued)

Fees, program, and other income

Fees, program, and other income consists primarily of management fees, which are recognized as earned under a management fee arrangement with terms of generally one year.

In addition, the Corporation, 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 fees, program, and other 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 the Corporation'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 2018 or 2017.

Cash and Cash Equivalents

Cash is comprised of various interest bearing and non-interest bearing deposits in several financial institutions. The Corporation 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 on a recurring basis, 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. The Corporation'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 the Corporation to recipient entities are generally issued as part of larger financial packages involving additional lenders. Substantially all of the Corporation'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. The Corporation 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 the Corporation in establishing the estimated allowance for possible losses.

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

Mortgage Notes Receivable and Allowance for Losses (Continued)

The Corporation 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 the Corporation'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.

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. In 2015 and 2017, the term of the option agreement was extended for additional two year periods making the option expiration date December 28, 2020. This amount was included in other assets in the consolidated statements of net position at December 31, 2017.

In December 2017, Citywide entered into a Purchase and Sale Agreement with a real estate developer for the sale of the Central Avenue property for $700,000. Immediately subsequent to Citywide's acquisition of the property pursuant to the purchase option agreement, Citywide transferred ownership to the purchaser. The transaction closed in December 2018 and a gain on the sale of approximately $69,600 was recognized.

A building located at 174 North Pearl Street is vacant and as of December 31, 2018, 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, 2018 and 2017, and the Corporation does not record depreciation on this asset.

Description of Leasing Arrangements

The Corporation, 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.

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

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

The Corporation is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Citywide and Liberty Park Development LLC's annual tax information filings are included with the annual filings of their sole member, Capitalize Albany Corporation.

Net Position

In order to present consolidated financial condition and consolidated operating results of the Corporation in a manner consistent with limitations and restrictions placed upon the use of resources, the Corporation 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.

Subsequent Events

For purposes of preparing these financial statements, Capitalize Albany Corporation considered events through March 5, 2019, the date the financial statements were available for issuance.

NOTE 2 — CASH AND CASH EQUIVALENTS

The Corporation maintains its cash in bank accounts with several financial institutions.

The Corporation 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.

NOTE 2 — CASH AND CASH EQUIVALENTS (Continued)

At December 31, 2018, the carrying amount and the bank balances of the Corporation's deposits were approximately $5,912,000 and $6,035,000, respectively. Of the bank balances, approximately $250,000 was insured under FDIC coverage and approximately $5,760,000 was secured by bank pledged investment securities. Uncollateralized amounts approximated $25,000 at December 31, 2018, 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:

	2018	2017
CDBG eligible activities	$ 114,633	$ 114,287
EC/EDZ revolving loan fund	447,777	381,297
Debt service reserve	-	172,171
Hudson River Way campaign	59,427	59,308
Total restricted cash and cash equivalents	$ 621,837	$ 727,063

At December 31, 2018, bank balances of restricted cash were approximately $621,800, of which approximately $197,800 were not insured under FDIC coverage.

NOTE 4 — INVESTMENTS AND FAIR VALUE MEASUREMENTS

Investments consist of the following at December 31:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Fixed Income Securities	$ 2,737,459	$ 2,732,987	$ 1,889,020	$ 1,883,643
Certificates of Deposit	358,697	359,185	1,073,993	1,074,609
Equities and Mutual Funds	388,695	500,192	461,161	660,315
Money Market	52,982	52,982	7,814	7,814
Total	$ 3,537,833	$ 3,645,346	$ 3,431,988	$ 3,626,381

Unrealized (losses) gains of approximately ($87,000) and $66,000 at December 31, 2018 and 2017, respectively, are included in other interest and investment income in the consolidated statements of revenue and expenses and changes in net position.

GASBS No. 72, *Fair Value Measurement and Application*, establishes requirements on how fair value should be measured, which assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Recurring fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

NOTE 4 — INVESTMENTS AND FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth, within the fair value hierarchy, the Corporation's assets at fair value at December 31, 2018 and 2017:

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Money Market	$ 52,982	$ -	$ -	$ 52,982
Mutual Funds	201,267	-	-	201,267
Equities	298,925	-	-	298,925
Corporate Debt Securities	673,995	-	-	673,995
U.S. Treasury	1,807,203	-	-	1,807,203
Municipal Bonds	-	251,789	-	251,789
Certificates of Deposit	-	359,185	-	359,185
	$ 3,034,372	$ 610,974	$ -	$ 3,645,346

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Money Market	$ 7,814	$ -	$ -	$ 7,814
Mutual Funds	177,972	-	-	177,972
Equities	482,343	-	-	482,343
Corporate Debt Securities	681,130	-	-	681,130
U.S. Treasury	521,648	-	-	521,648
Government Issues				
Fed Natl Mtg Assn	-	51,975	-	51,975
Fed Home Ln Mtg Corp	-	99,710	-	99,710
Fed Home Ln Banks	-	273,647	-	273,647
Municipal Bonds	-	255,533	-	255,533
Certificates of Deposit	-	1,074,609	-	1,074,609
	$ 1,870,907	$ 1,755,474	$ -	$ 3,626,381

NOTE 5 — MORTGAGE NOTES RECEIVABLE, NET

The Corporation's mortgage notes receivable are comprised of 31 and 33 individual accounts at December 31, 2018 and 2017, respectively, with an average outstanding principal balance approximating $115,000 and $122,000 at December 31, 2018 and 2017, respectively.

Repayment terms and interest rates on mortgage loans vary with each loan. Generally, interest rates range from 0% to 9% per year, with a weighted yield on all loans approximating 3.9% and 3.5% for the years ended December 31, 2018 and 2017, respectively. Current maturities range from 2019 through the year 2080.

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

NOTE 5 — MORTGAGE NOTES RECEIVABLE, NET (Continued)

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

	2018		2017	
	Number of Notes	Amount	Number of Notes	Amount
CDBG	1	$ 33,735	1	$ 33,735
UDAG	10	902,084	11	914,669
EC/EDZ	5	365,728	5	426,577
Revolving Real Estate Loan Fund	4	848,720	4	1,166,263
Other	11	1,429,334	12	1,478,616
	31	3,579,601	33	4,019,860
Less allowance for losses		(2,114,379)		(2,125,486)
Mortgage notes receivable, net		1,465,222		1,894,374
Less: current portion		132,373		132,133
Noncurrent		$ 1,332,849		$ 1,762,241

The Community Block Development Grant Program (CDBG) and UDAG notes were funded through monies received under Federal programs in prior years. The Enterprise Community/Economic Development Zone (EC/EDZ) notes were funded through grant monies received in prior years (see Note 11).

The Revolving Real Estate Loan Fund was established through an allocation of $2 million of general funds of the Corporation for the purpose of stimulating strategic development projects. The Corporation also lends monies to individuals, businesses, and non-profit agencies for other projects in furtherance of its mission utilizing general funds of the Corporation. Both the Revolving Real Estate Loan Fund and Other notes are not restricted by any external funding sources.

The recorded investment in mortgage notes receivable that are considered to be impaired approximated $2,134,000 and $2,204,000 at December 31, 2018 and 2017, respectively. The allowance for losses related to impaired loans approximated $2,114,000 and $2,125,000 at December 31, 2018 and 2017, respectively. Interest income recognized on impaired mortgage notes receivable, while such mortgage notes receivable were impaired, was approximately $700 for 2017 ($0 for 2018).

NOTE 6 — 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, 2018:

	January 1, 2018	Additions	Dispositions	Reclassification	Impairment	December 31, 2018
Riverfront Bar & Grill - Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-	-	-	25,000
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
Land at 60 Green Street	-	10,958	-	-	-	10,958
	4,753,947	10,958	-	-	-	4,764,905
Less accumulated depreciation	2,708,704	175,482	-	-	-	2,884,186
	$ 2,045,243					$ 1,880,719

NOTE 6 — PROPERTY HELD FOR INVESTMENT AND LEASE, NET (Continued)

The following is a summary of changes in property held for investment and lease for the year ended December 31, 2017:

	January 1, 2017	Additions	Dispositions	Reclassification	Impairment	December 31, 2017
Riverfront Bar & Grill - Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-	-	-	25,000
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
	4,753,947	-	-	-	-	4,753,947
Less accumulated depreciation	2,533,221	175,483	-	-	-	2,708,704
	$ 2,220,726					$ 2,045,243

NOTE 7 — PROPERTY AND EQUIPMENT, NET

The following is a summary of changes in property and equipment for the year ended December 31, 2018:

	January 1, 2018	Additions	Dispositions	December 31, 2018
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	467,660	17,375	-	485,035
Furniture and equipment	144,591	2,868	-	147,459
Total	661,551	20,243	-	681,794
Less accumulated depreciation	331,250	14,303	-	345,553
	$330,301	$ 5,940	$ -	$ 336,241

The following is a summary of changes in property and equipment for the year ended December 31, 2017:

	January 1, 2017	Additions	Dispositions	December 31, 2017
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	467,660	-	-	467,660
Furniture and equipment	144,591	-	-	144,591
Total	661,551	-	-	661,551
Less accumulated depreciation	307,305	23,945	-	331,250
	$354,246	$ (23,945)	$ -	$ 330,301

Depreciation expense, including depreciation expense on property held for investment and lease, was approximately $190,000 and $199,000 for the years ended December 31, 2018 and 2017, respectively.

NOTE 8 — OPERATING LEASES

The Corporation leases the Quackenbush Square Parking Lot, the Quackenbush House, and Corning Preserve Project, all classified as property held for investment and lease (see Note 6), 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, 2018:

2019	$ 304,228
2020	286,299
2021	241,951
2022	236,176
2023	246,569
Thereafter	256,667
	$1,571,890

The Corporation leases the Corning Preserve Project to the Albany Port District Commission (the "Port") under a shared use and lease agreement (see Note 13). The shared use and sublease agreement has a thirty year term expiring in 2032. 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. The Corporation is recognizing the base rental income on a straight-line basis over the life of the lease based on the lease factors at inception of the lease. For the years ended December 31, 2018 and 2017, rental income approximated $156,000 and $153,000, respectively. 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 9 — NET INVESTMENT IN DIRECT FINANCING LEASES

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

	2018*	2017
Total minimum lease payments to be received	$ -	$ 198,219
Less: amounts representing executory costs (such as insurance) included in total minimum lease payments	-	-
Net minimum lease payments receivable	-	198,219
Less: unearned income	-	(10,071)
Net investment in direct financing leases	-	188,148
Less: current portion	-	188,148
Noncurrent (*Leases expired in 2018 in accordance with terms)	$ -	$ -

NOTE 9 — NET INVESTMENT IN DIRECT FINANCING LEASES (Continued)

Net investment in direct financing leases was comprised primarily of the following leases:

A lease with ACDA, related to a facility located at 200 Henry Johnson Boulevard. In addition, a master lease agreement with the City guaranteed 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 approximated $190,000 annually). Portions of the payments were utilized by the Corporation to fund their debt service obligation for the related bonds payable (see Note 10). The lease had a twenty-five year term and expired in March 2018. The net investment in the lease approximated $181,000 as of December 31, 2017 ($0 as of December 31, 2018). Income earned during 2018 and 2017 approximated $10,000 and $22,000, respectively.

A lease with the City, related to the Albany Police Department's North Station, requiring annual payments of $22,088. The lease had a twenty year term and expired in July 2018. The net investment in the lease approximated $7,000 as of December 31, 2017 ($0 as of December 31, 2018). Income earned during 2018 and 2017 approximated $100 and $700, respectively.

NOTE 10 — BONDS PAYABLE

The following is a summary of changes in bonds payable for the year ended December 31, 2018:

	January 1, 2018	Increases	Decreases	December 31, 2018
Bonds Payable:				
AIDA Henry Johnson Boulevard Project (A)	$ 160,000	$ -	$ (160,000)	$ -
AIDA Corning Preserve Project (B)	1,540,000	-	(190,000)	1,350,000
	1,700,000	-	(350,000)	1,350,000
Less current maturities	350,000			200,000
	$ 1,350,000			$ 1,150,000

The following is a summary of changes in bonds payable for the year ended December 31, 2017:

	January 1, 2017	Increases	Decreases	December 31, 2017
Bonds Payable:				
AIDA Henry Johnson Boulevard Project (A)	$ 310,000	$ -	$ (150,000)	$ 160,000
AIDA Corning Preserve Project (B)	1,720,000	-	(180,000)	1,540,000
	2,030,000	-	(330,000)	1,700,000
Less current maturities	330,000			350,000
	$ 1,700,000			$ 1,350,000

NOTE 10 — BONDS PAYABLE (Continued)

(A) The Corporation functioned as the conduit agency in connection with a 1994 bond issue of the CAIDA 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 was recorded at the amount of debt assumed under the bond issue. The bonds required semi-annual payment of interest and the interest rate was adjusted every five years (interest rate of 5.75% during both 2018 and 2017). The obligation matured and was satisfied in March 2018. The building was leased to ACDA under a related lease agreement that was classified as a direct financing lease (see Note 9).

(B) The Corporation functioned as the conduit agency in connection with a 2002 Civic Facility Revenue bond issue of the CAIDA 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 mature in May 2027. 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 $200,000 in 2019 to $255,000 in 2024, thus providing for the full amortization of the bonds by the 2027 maturity date. 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 interest rate at December 31, 2018 was 1.96%. The Corning Preserve Project is leased to the Port under a related agreement that has been classified as an operating lease (see Note 8).

At December 31, 2018, principal and interest requirements to maturity are as follows:

	Principal	Interest
2019	$ 200,000	$ 23,856
2020	210,000	19,804
2021	220,000	15,555
2022	225,000	11,176
2023	240,000	6,569
2024	255,000	1,667
	$ 1,350,000	$ 78,627

NOTE 11 — REVOLVING LOAN FUND LIABILITY

In June 1999, the Corporation 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 $15,000 and $20,000 of such revenue was recognized for the years ended December 31, 2018 and 2017, respectively.

NOTE 12 — 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 $55,000. 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.

Funding Requirements: The Corporation has elected to contribute 11% of an eligible employee's compensation annually to the SEP-IRA. During both 2018 and 2017, seven employees were covered by the SEP-IRA, and total contributions were approximately $57,000 and $59,000, respectively.

Post Employment Benefit

The Corporation does not offer post employment benefit to its employees.

NOTE 13 — CORNING PRESERVE PROJECT

The Corporation, 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). The Corporation 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.

The Corporation entered into a lease agreement with the CAIDA to sublease the property to the CAIDA. The sublease expires at the earlier of a date requested by the Corporation or the completion date of the Corning Preserve Project. The lease agreement provides for a nominal payment. The Corporation also entered into an installment sale agreement with the CAIDA pursuant to which the Corporation is obligated, among other things, to complete the Corning Preserve Project as the agent of the CAIDA and the CAIDA sells the Corning Preserve Project to the Corporation on an installment basis. The Corporation'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 CAIDA to fund the Corning Preserve Project, which is accounted for as bonds payable (see Note 10).

The Corporation 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 the Corporation, the Corporation'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 the Corporation'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 8).

NOTE 14 — COMMITMENTS AND CONTIGENCIES

During 2015, the Corporation entered into a professional services agreement with the City of Albany with a five-year term, which replaced a previous agreement. Under this agreement the City of Albany provides economic development, planning, and community development consultancy services in furtherance of the Corporation's mission. The Corporation's fee to the City of Albany under this agreement totaled approximately $53,000 for each of the years ended December 31, 2018 and 2017. The fee shall be automatically modified to reflect any salary and fringe adjustment to the City employee positions and any changes to expenses.

In December 2017, the Corporation entered into a Purchase and Sale Agreement for the transfer of property interests in the roughly five acre area surrounding Liberty Park in downtown Albany for a nominal purchase price of $1. As part of the agreement, the Corporation will assume certain ground lease obligations with terms expiring through 2040. The Corporation expects to close on the transfer of the property interests in 2019 pending satisfaction of all conditions described in the Purchase and Sale Agreement.

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, which comprise the consolidated statement of net position as of December 31, 2018, 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 5, 2019.

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.

UHY LLP Certified Public Accountants

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, including Investment Guidelines for Public Authorities and Capitalize Albany Corporation's investment guidelines, 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 5, 2019