CAPITALIZE ALBANY CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2016 and 2015

CAPITALIZE ALBANY CORPORATION

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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, 2016 and 2015, 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, 2016 and 2015, 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 27, 2017, 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 27, 2017

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, 2016. 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. On a monthly basis, 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 economic development within the City of Albany. The Corporation 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.

As a catalyst for economic growth, Capitalize Albany Corporation facilitates transformational development projects. As a registered 501(c) (3) not-for-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.

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 85 businesses in 2016. 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.

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

Real Estate Development

CAC 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 is working to market the 526 Central Avenue property for commercial redevelopment.

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, 2016, $2,475,000 has been disbursed under this revolving loan fund program representing over $31 million of project investment within the City of Albany. These projects have created 158 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 2016, several organizations utilized the programs and incentives of the CAIDA; the approval of the projects will result in over $100 million of investment within the City of Albany. These projects are anticipated to create or retain nearly 897 temporary and permanent jobs within the City and create more than 350 units of both affordable and market-rate housing.

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, 2016, Impact Downtown Albany has led to more than $275 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 500 units to date.

In 2015, the Impact Downtown Albany strategy served as a core guiding document for the creation of the Capital Region Economic Development Council's new 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.

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, 2016 and 2015 is shown below:

	2016	2015
Total revenues	$1,766,008	$1,538,724
Total expenses	1,686,323	1,692,321
Excess of revenues over expenses (expenses over revenues)	$ 79,685	$ (153,597)

Total revenues increased $227,284 or 15%:

- Grant and contribution income increased $100,857 or 15% from $674,487 in 2015 to $775,344 in 2016. Revenue derived from grants is typically program specific and non-recurring. Significant grants in 2016 include $250,000 from the IDA and $178,380 from the Albany Community Development Agency, both for general economic development support, and the receipt of $236,250 from the New York State Housing Trust Fund Corporation for a New York Main Street Anchor Grant.

- Rental income increased by $7,076 or 2% from $294,170 in 2015 to $301,246 in 2016. This is primarily attributable to rent increases that occurred in 2016.

- Other interest and investment income increased $64,926 or 69% from $94,077 in 2015 to $159,003 in 2016 primarily due to the change in fair market value of investments.

- Interest income on mortgage notes increased $1,225 or 1% from $91,889 in 2015 to $93,114 in 2016 due to issuance of a new loan.

- Fees and other income increased $53,200 or 14% from $384,101 in 2015 to $437,301 in 2016. This is primarily attributable to increased professional service fees.

Total expenses decreased $5,998 or 0.4%:

- Salaries and fringe benefits increased $67,187 or 9% from $733,919 in 2015 to $801,106 in 2016. This increase is primarily attributable to a full year of salaries and fringe benefits for three staff members hired during the first and second quarters of 2015 to fill previously vacant positions.

- Program and project costs decreased $35,903 or 7% from $502,438 in 2015 to $466,535 in 2016. The decrease is primarily attributable to lower Impact Downtown Albany related expenses.

- Professional and consulting expenses decreased $24,572 or 10% from $258,443 in 2015 to $233,871 in 2016. This decrease is attributable to lower legal, consulting and IT expenses incurred in 2016.

- Interest expense decreased $296 or 1% from $29,825 in 2015 to $29,529 in 2016. This decrease is attributable to an increase in interest rates on variable rate bonds offset by a reduction in interest expense related to a capital lease.

- Bad debt expense recoveries totaled $2,787 in 2015 compared to bad debt expense of $6,997 in 2016.

- Other administrative expenses decreased $22,198 or 13% from $170,483 in 2015 to $148,285 in 2016. This decrease is attributable to the modest decreases in various administrative expenses.

A condensed summary of Capitalize Albany's net position at December 31, 2016 and 2015 is shown below:

	2016	2015
Assets		
Cash and cash equivalents	$ 4,370,264	$ 4,162,198
Investments	3,525,663	3,437,044
Restricted cash	639,776	579,605
Other assets	900,637	892,144
Mortgage notes receivable, net of allowances	2,532,962	2,430,327
Net investment in direct financing leases	360,808	520,990
Property, plant and equipment, net (includes property held for investment and lease)	2,574,972	2,774,278
Total assets	$ 14,905,082	$ 14,796,586
Deferred Outflows of Resources	$ -	$ -
Liabilities		
Bonds payable	$ 2,030,000	$ 2,350,000
Other liabilities	1,066,557	708,966
Unearned program support and revolving loan fund liability	771,979	780,759
Total liabilities	$ 3,868,536	$ 3,839,725
Deferred Inflows of Resources	$ -	$ -
Net Position		
Net investment in capital assets	$ 854,971	$ 879,278
Restricted net position	297,267	299,912
Unrestricted net position	9,884,308	9,777,671
Total net position	$ 11,036,546	$ 10,956,861

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

In 2017, 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.

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, 2016 and 2015

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	**$ 4,370,264**	$ 4,162,198
Investments	**3,525,663**	3,437,044
Restricted cash	**639,776**	579,605
Mortgage notes receivable, current portion, net	**146,561**	193,913
Net investment in direct financing leases, current portion	**172,660**	159,175
Accrued interest receivable	**38,421**	45,102
Receivables from the City of Albany and City agencies	**112,711**	100,020
Total current assets	**9,006,056**	8,677,057
Noncurrent Assets:		
Mortgage notes receivable, less current portion, net	**2,386,401**	2,236,414
Other receivables	**90,737**	88,131
Net investment in direct financing leases, less current portion	**188,148**	361,815
Property held for investment and lease, net	**2,220,726**	2,396,208
Property and equipment, net	**354,246**	378,070
Other assets	**658,768**	658,891
Total noncurrent assets	**5,899,026**	6,119,529
Total assets	**$ 14,905,082**	$ 14,796,586
Deferred Outflows of Resources	**$ -**	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 88,784**	$ 132,294
Due to the City of Albany	**72,892**	72,892
Unearned grant and other income	**904,881**	503,780
Bonds payable, current portion	**330,000**	320,000
Total current liabilities	**1,396,557**	1,028,966
Noncurrent Liabilities:		
Bonds payable, less current portion	**1,700,000**	2,030,000
Revolving loan fund liability	**704,614**	703,612
Unearned program support	**67,365**	77,147
Total noncurrent liabilities	**2,471,979**	2,810,759
Total liabilities	**$ 3,868,536**	$ 3,839,725
Deferred Inflows of Resources	**$ -**	$ -
Net Position		
Net invested in capital assets	**$ 854,971**	$ 879,278
Restricted for:		-
Debt service	**171,483**	171,466
CDBG eligible activities	**114,010**	123,034
Other program specific activities	**11,774**	5,412
Unrestricted	**9,884,308**	9,777,671
Total net position	**$ 11,036,546**	$ 10,956,861

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, 2016 and 2015

	2016	2015
Revenues		
Grant and contribution income	**$ 775,344**	$ 674,487
Rental income	**301,246**	294,170
Other interest and investment income	**159,003**	94,077
Interest income on mortgage notes	**93,114**	91,889
Fees and other income	**437,301**	384,101
Total revenues	**1,766,008**	1,538,724
Expenses		
Salaries and fringe benefits	**801,106**	733,919
Program and project costs	**466,535**	502,438
Professional and consulting expenses	**233,871**	258,443
Interest expense	**29,529**	29,825
Bad debt recovery	**6,997**	(2,787)
Other administrative expenses	**148,285**	170,483
Total expenses	**1,686,323**	1,692,321
Excess of revenues over expenses (expenses over revenues)	**79,685**	(153,597)
Net Position, Beginning of Year	**10,956,861**	11,110,458
Net Position, End of Year	**$ 11,036,546**	$ 10,956,861

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2016 and 2015

	2016	2015
Cash Flows From Operating Activities		
Cash received from customers	**$ 412,116**	$ 444,149
Cash received from grantors and contributors	**1,164,756**	695,981
Other operating cash receipts	**417,737**	371,785
Cash payments to suppliers and grantees	**(690,116)**	(869,134)
Cash payments to employees	**(801,106)**	(733,919)
Net cash provided by (used in) operating activities	**503,387**	(91,138)
Cash Flows From Capital and Related Financing Activities		
Purchase of property and equipment	**-**	(6,878)
Principal payments on bonds payable	**(320,000)**	(300,000)
Interest paid on bonds payable	**(32,308)**	(32,413)
Net cash used in capital and related financing activities	**(352,308)**	(339,291)
Cash Flows From Investing Activities		
Interest on cash and cash equivalents and investments	**101,828**	63,146
Net increase in restricted cash	**(60,171)**	(64,077)
Proceeds from sales and maturities of investments	**3,351,824**	1,954,644
Purchase of investments	**(3,395,389)**	(2,001,078)
Issuance of mortgage notes receivable	**(400,000)**	(275,000)
Repayments received on mortgage notes and other receivables	**298,713**	675,723
Principal payments received under direct financing leases	**160,182**	150,531
Net cash provided by investing activities	**56,987**	503,889
Change in cash and cash equivalents	**208,066**	73,460
Cash and cash equivalents:		
Beginning of year	**4,162,198**	4,088,738
End of year	**$ 4,370,264**	$ 4,162,198

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Excess of Revenues Over Expenses (Expenses Over Revenues) to Net Cash Provided by Operating Activities		
Excess of revenues over expenses (expenses over revenues)	**$ 79,685**	$ (153,597)
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by (used in) operating activities:		
Depreciation and amortization	**199,306**	207,555
Adjustment for losses on mortgage notes and other receivables	**(2,785)**	(8,946)
Gain on sale of properties	**-**	-
Net realized and unrealized (gains) losses on investments	**(45,054)**	20,752
Interest income on cash and cash equivalents and investments	**(100,195)**	(59,412)
Interest expense on bonds payable	**29,529**	29,825
Changes in:		
Receivables from the City of Albany and City agencies	**(12,691)**	993
Other receivables, accrued interest receivable and other assets	**4,002**	2,671
Accounts payable and accrued expenses	**(40,731)**	(118,693)
Due to the City of Albany	**-**	(26,629)
Unearned grant and other income	**401,101**	17,406
Unearned program support	**(9,782)**	(6,158)
Revolving loan fund liability	**1,002**	3,095
Net cash provided by (used in) operating activities	**$ 503,387**	$ (91,138)

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

Component Unit Reporting

Effective January 1, 2015, the Corporation is no longer a component reporting unit of the City of Albany.

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

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 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 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 2016 or 2015.

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. 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 and Fair Value Measurements

Investments are carried at fair value on a recurring basis, based on current market prices. Effective for periods beginning after June 15, 2015, GASBS No. 72, *Fair Value Measurement and Application*, establishes new 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 in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2016 and 2015, all investments measured at fair value were considered Level 1 investments under the fair value hierarchy.

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.

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.

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

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, the term of the option agreement was extended for an additional two year period making the option expiration date December 28, 2018. This amount is included in other assets in the consolidated statements of net position at December 31, 2016 and 2015.

A building located at 174 North Pearl Street is vacant and as of December 31, 2016, 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, 2016 and 2015, 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.

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's annual tax information filings are included with the annual filings of its sole member, Capitalize Albany Corporation.

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

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.”

Subsequent Events

For purposes of preparing these financial statements, Capitalize Albany Corporation considered events through March 27, 2017, 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.

At December 31, 2016, the carrying amount and the bank balances of the Corporation’s deposits were approximately $5,010,000 and $5,016,000, respectively. Of the bank balances, approximately $842,000 was insured under FDIC coverage and approximately $4,126,000 was secured by bank pledged investment securities. Uncollateralized amounts approximated $48,100 at December 31, 2016, 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:

	2016	2015
CDBG eligible activities	$ 110,935	$ 111,054
EC/EDZ revolving loan fund	298,122	237,850
Debt service reserve	171,483	171,466
Hudson River Way campaign	59,236	59,235
Total restricted cash and cash equivalents	$ 639,776	$ 579,605

At December 31, 2016, bank balances of restricted cash were approximately $639,800, of which approximately $48,100 were not insured under FDIC coverage.

NOTE 4 — INVESTMENTS

Investments consist of the following at December 31:

	2016		2015	
	Cost	Fair Value	Cost	Fair Value
Corporate Debt Securities	$ 775,438	$ 770,908	$ 816,236	$ 808,311
Certificates of Deposit	2,238,346	2,244,341	2,127,360	2,127,310
Equities	281,350	407,864	309,190	399,966
Other	102,550	102,550	101,457	101,457
Total	$ 3,397,684	$ 3,525,663	$ 3,354,243	$ 3,437,044

Unrealized gains (losses) of approximately $45,000 and $(58,000) at December 31, 2016 and 2015, 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

The Corporation's mortgage notes receivable are comprised of 39 and 40 individual accounts at December 31, 2016 and 2015, respectively, with an average outstanding principal balance approximating $118,000 and $112,000 at December 31, 2016 and 2015, 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, 2016 and 2015. Maturities range from 2017 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:

	2016		2015	
	Number of Notes	Amount	Number of Notes	Amount
CDBG	2	$ 36,810	2	$ 37,280
UDAG	13	930,455	14	949,589
Other	24	3,624,896	24	3,504,006
	39	4,592,161	40	4,490,875
Less allowance for losses		(2,059,199)		(2,060,548)
Mortgage notes receivable, net		2,532,962		2,430,327
Less: Current portion		146,561		193,913
Noncurrent		$ 2,386,401		$ 2,236,414

Of the total mortgage receivable balance approximately $382,000 and $440,000 as of December 31, 2016 and 2015, respectively, is due from the Albany Community Development Agency (ACDA), a component unit of the City of Albany.

The recorded investment in mortgage notes receivable that are considered to be impaired approximated $2,184,000 and $2,224,000 at December 31, 2016 and 2015, respectively. The allowance for losses related to impaired loans approximated $2,059,000 and $2,061,000 at December 31, 2016 and 2015, respectively. Interest income recognized on impaired mortgage notes receivable, while such mortgage notes receivable were impaired, was approximately $1,800 and $2,000 for 2016 and 2015, respectively.

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

There was a receivable from ACDA in the amount of approximately $113,000 and $100,000 related to reimbursable expenditures incurred under the CDBG program at December 31, 2016 and 2015, 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, 2016:

	January 1, 2016	Additions	Dispositions	Reclassification	Impairment	December 31, 2016
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	2,357,739	175,482	-	-	-	2,533,221
	$ 2,396,208					$ 2,220,726

NOTE 7 — 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, 2015:

	January 1, 2015	Additions	Dispositions	Reclassification	Impairment	December 31, 2015
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	2,182,256	175,483	-	-	-	2,357,739
	$ 2,571,691					$ 2,396,208

NOTE 8 — PROPERTY AND EQUIPMENT, NET

The following is a summary of changes in property and equipment for the year ended December 31, 2016:

	January 1, 2016	Additions	Dispositions	December 31, 2016
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	283,481	23,824	-	307,305
	$378,070	$ (23,824)	$ -	$ 354,246

The following is a summary of changes in property and equipment for the year ended December 31, 2015:

	January 1, 2015	Additions	Dispositions	December 31, 2015
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	465,411	2,249	-	467,660
Furniture and equipment	139,962	4,629	-	144,591
Total	654,673	6,878	-	661,551
Less accumulated depreciation	251,409	32,072	-	283,481
	$403,264	$ (25,194)	$ -	$ 378,070

Depreciation expense, including depreciation expense on property held for investment and lease, was approximately $199,000 and $208,000 for the years ended December 31, 2016 and 2015, respectively.

NOTE 9 — OPERATING LEASES

The Corporation 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, 2016:

2017	$ 267,914
2018	235,137
2019	244,946
2020	254,733
2021	231,531
Thereafter	726,407
	$1,960,668

The Corporation leases the Corning Preserve Project to the Albany Port District Commission (the "Port"), a 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 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 (approximately $152,000 per year) over the life of the lease based on the lease factors at inception of the lease. For the years ended December 31, 2016 and 2015, rental income approximated $152,000 and $148,000, 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 10 — NET INVESTMENT IN DIRECT FINANCING LEASES

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

	2016	2015
Total minimum lease payments to be received	$ 401,291	$ 608,109
Less: amounts representing executory costs (such as insurance) included in total minimum lease payments	-	-
Net minimum lease payments receivable	401,291	608,109
Less: unearned income	(40,483)	(87,119)
Net investment in direct financing leases	360,808	520,990
Less: current portion	172,660	159,175
Noncurrent	$ 188,148	$ 361,815

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

Minimum future lease payments to be received, as of December 31, 2016, for the remaining lease terms, are as follows:

2017	$ 203,072
2018	198,219
Total minimum lease payments to be received	$ 401,291

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 the Corporation to fund their debt service obligation for the related bonds payable (see Note 12). The lease has a twenty-five year term and expires in March 2018. The net investment in the lease approximated $341,000 and $488,000 as of December 31, 2016 and 2015, respectively. Income earned during 2016 and 2015 approximated $40,000 and $55,000, 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 expires in July 2018. The net investment in the lease approximated $20,000 and $33,000 as of December 31, 2016 and 2015, respectively. Income earned during 2016 and 2015 approximated $1,300 and $2,100, respectively.

NOTE 11 — DUE TO THE CITY OF ALBANY

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

	2016	2015
Professional services fee payable	$ 13,371	$ 13,371
Hudson River Way project	59,521	59,521
	$ 72,892	$ 72,892

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, 2016 and 2015, respectively. The fee shall be automatically modified to reflect any salary and fringe adjustment to the City employee positions and any changes to expenses.

NOTE 12 — BONDS PAYABLE

The following is a summary of changes in bonds payable for the year ended December 31, 2016:

	January 1, 2016	Increases	Decreases	December 31, 2016
Bonds Payable:				
AIDA Henry Johnson Boulevard Project (A)	$ 455,000	$ -	$ (145,000)	$ 310,000
AIDA Corning Preserve Project (B)	1,895,000	-	(175,000)	1,720,000
	2,350,000	-	(320,000)	2,030,000
Less current maturities	320,000			330,000
	$ 2,030,000			$ 1,700,000

The following is a summary of changes in bonds payable for the year ended December 31, 2015:

	January 1, 2015	Increases	Decreases	December 31, 2015
Bonds Payable:				
AIDA Henry Johnson Boulevard Project (A)	$ 590,000	$ -	$ (135,000)	$ 455,000
AIDA Corning Preserve Project (B)	2,060,000	-	(165,000)	1,895,000
	2,650,000	-	(300,000)	2,350,000
Less current maturities	300,000			320,000
	$ 2,350,000			$ 2,030,000

(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 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 $150,000 to $160,000. The obligation matures in March 2018. The interest rate at December 31, 2016 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).

(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 $180,000 in 2017 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, 2016 was 0.6%. The Corning Preserve Project is leased to the Port under a related agreement that has been classified as an operating lease (see Note 9).

NOTE 12 — BONDS PAYABLE (Continued)

At December 31, 2016, principal and interest requirements to maturity are as follows:

	Principal	Interest
2017	$ 330,000	$ 23,868
2018	350,000	13,747
2019	200,000	7,874
2020	210,000	6,537
2021	220,000	5,135
2022 - 2024	720,000	6,407
	$ 2,030,000	$ 63,568

NOTE 13 — 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 $24,000 and $28,000 of such revenue was recognized for the years ended December 31, 2016 and 2015, 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 $53,000. 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 2016 and 2015, nine and six employees were covered by the SEP-IRA, and total contributions were approximately $67,000 and $50,000, respectively.

Post Employment Benefit

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

NOTE 15 — 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 12).

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 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, which comprise the consolidated statement of net position as of December 31, 2016, 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 27, 2017.

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 27, 2017