

**CAPITALIZE ALBANY CORPORATION**

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2019 and 2018

# 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, 2019 and 2018, 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.

**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, 2019 and 2018, 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 9 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 24, 2020, 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 24, 2020

# **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, 2019. 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 2019. 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 Albany 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 Façade 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 façade 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.

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, 2019, \$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.

In 2019, Capitalize Albany Corporation approved to enter into a Purchase and Sale Agreement (PSA) with the Palace Performing Arts Center, Inc., a 501(c)(3) New York not for profit corporation (Palace Theatre). The Palace is in the midst of making significant investments in its physical infrastructure (including expansion, renovation and new construction) which will enable the Palace to expand the diversity and quality of its cultural and entertainment offerings (the "Palace Revitalization Project") to the public. The PSA allows for the transfer of six (6) CAC-owned unimproved real property parcels to support the Palace's project. Parcels include 27 and 29 Clinton Avenue and 168, 170, and 174 North Pearl Street which are immediately adjacent to the real property owned by the Palace on which the Palace owns and operates the historic Palace Theater in downtown Albany.

# CAPITALIZE ALBANY CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 2019, several organizations utilized the programs and incentives of the CAIDA; the approval of the projects will result in over \$187 million of investment within the City of Albany. These projects are anticipated to create or retain nearly 1,000 temporary and permanent jobs within the City and create more than 625 units of both affordable and market-rate housing.

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 the Liberty Park site in downtown Albany. Please see more information in the Strategic Initiatives section below.

### 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, 2019, Impact Downtown Albany has led to more than \$400 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 650 units to date. More than 400 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 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 will entail a feasibility study including assessments, planning, preliminary design and other related activities. This phase was completed in 2018. The Corporation's staff continues to support the project as it works towards final design and construction.

# CAPITALIZE ALBANY CORPORATION

## MANAGEMENT’S DISCUSSION AND ANALYSIS

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. The Corporation and the ACCA closed on this agreement in 2019. This development site was highlighted as a priority in both the Impact Downtown Albany and Capital 20.20 plans. 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.

In 2019, Capitalize Albany Corporation was awarded up to \$15 million in Upstate Revitalization Initiative funds for the redevelopment of Liberty Park. This funding will support acquisition, demolition, stabilization of property, infrastructure and public space improvements, design, planning, construction and renovation costs. Empire State Development approved \$10.1 million requested for associated preliminary costs.

In 2019, Liberty Square Development, LLC purchased a portion of the Liberty Park site from the trust of David O. Chambers for \$3.3 million. The Corporation also closed on the property transfer under the ACCA and Capitalize Albany purchase and sale agreement effective December 2019.

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.

In 2018, the City of Albany was chosen as the Capital Region’s third-round New York State Downtown Revitalization Initiative \$10 million-winner. In 2019 Governor Cuomo announced 12 transformative projects catalyzed by this funding, Capitalize Albany Corporation’s Clinton Market Collective project was awarded \$1 million. The Clinton Market Collective at Federal Park — 11 Clinton Ave. project — will renovate Federal Park to allow for the creation of a new market concept and proving ground for start-up businesses. The activities proposed by this project - diverse pop up retail, installments by local artists, signature events and enhanced pedestrian connections - anchor Clinton Square’s role as both an engaging destination and an introduction to unique and vibrant local arts and commercial venues.

## 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, 2019 and 2018 is shown below:

	<u>2019</u>	<u>2018</u>
<b>Total revenues</b>		
Operating revenues	\$ 1,822,298	\$ 1,932,979
Capital grant funding	4,108,478	-
	<u>5,930,776</u>	<u>1,932,979</u>
<b>Total expenses</b>	<u>1,814,186</u>	<u>1,999,490</u>
<b>Change in net position</b>	<u>\$4,116,590</u>	<u>\$ (66,511)</u>



# CAPITALIZE ALBANY CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Total revenues increased \$3,997,797 or 207%:

- Capital grant income of \$4,108,478 was recognized in 2019 under the ESD grant for the acquisition and redevelopment of property in the Liberty Park neighborhood in Downtown Albany.
- Grant and contribution income that is not capital-related is classified as operating revenue and decreased \$292,900 or 29% from \$1,003,131 in 2018 to \$710,231 in 2019. Revenue derived from grants and contributions is typically program specific and non-recurring. Significant grants and contributions in 2019 include \$250,000 from the IDA and \$165,843 from the Albany Community Development Agency, both for general economic development support.
- Rental income decreased \$1,814 or less than 1% from \$300,287 in 2018 to \$298,473 in 2019. There were no significant changes in the Corporation's lessor arrangements during 2019.
- Other interest and investment income increased \$218,449 or 319% from \$68,581 in 2018 to \$287,030 in 2019 primarily due to an increase in the change in fair market value of investments in addition to higher interest being earned on the Corporation's general bank accounts.
- Interest income on mortgage notes decreased \$14,627 or 20% from \$74,358 in 2018 to \$59,731 in 2019 due to loan payoffs as well as no new loan activity occurring in 2019.
- Gain on sale of property in 2018 was \$69,555. This was attributable to the Corporation exercising its purchase option on the 526 Central Avenue property and then selling the property for development.
- Fees, program, and other income increased \$49,766 or 12% from \$417,067 in 2018 to \$466,833 in 2019. This is primarily attributable to an approved increase in the Corporation's management fees pursuant to a professional services agreement with the CAIDA and CACRC.

### Total expenses decreased \$185,304 or 9%:

- Salaries and fringe benefits increased \$40,609 or 5% from \$760,340 in 2018 to \$801,249 in 2019. This increase is primarily attributable to market and merit-based increases.
- Program and project costs decreased \$303,429 or 35% from \$877,287 in 2018 to \$573,858 in 2019. The decrease is primarily attributable to a decrease in activity in 2019 compared to 2018 under the Skyway project which was completed in 2019, which corresponds to the decrease in grant and contribution income during 2019.
- Professional and consulting expenses increased \$15,095 or 7% from \$225,173 in 2018 to \$240,268 in 2019. This increase is attributable to higher consulting fees incurred by the Corporation as it relates to supporting the Corporation's competitiveness, staff changes and existing employees.
- Interest expense decreased \$3,051 or 14% from \$22,554 in 2018 to \$19,503 in 2019. This decrease is attributable to a reduction in interest expense related to the variable rate bonds for the Corning Preserve project.
- Bad debt expense totaled \$0 in 2018 compared to \$44,034 in 2019. The Corporation's allowance for losses is evaluated on a regular basis by management. Additional bad debt provisions are charged to earnings and offset by recoveries, if any.
- Other administrative expenses increased \$21,168 or 9% from \$113,836 in 2018 to \$135,004 in 2019. This increase is attributable higher membership and general office expenses incurred during 2019.

# CAPITALIZE ALBANY CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

A condensed summary of Capitalize Albany's net position at December 31, 2019 and 2018 is shown below:

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 3,260,200	\$ 5,912,121
Investments	6,065,068	3,645,346
Restricted cash	6,830,301	621,837
Other assets	599,142	669,710
Mortgage notes receivable, net of allowances	1,303,701	1,465,222
Property, plant and equipment, net (includes property held for investment and lease)	2,149,414	2,206,002
Liberty Park properties	4,005,841	10,958
<b>Total assets</b>	<u>\$ 24,213,667</u>	<u>\$ 14,531,196</u>
<b>Deferred Outflows of Resources</b>		
	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>		
Bonds payable	\$ 1,150,000	\$ 1,350,000
Other liabilities	168,276	442,491
Unearned grant and other income	6,958,634	944,200
Unearned program support and revolving loan fund liability	719,525	693,863
<b>Total liabilities</b>	<u>\$ 8,996,435</u>	<u>\$ 3,430,554</u>
<b>Deferred Inflows of Resources</b>		
	<u>\$ -</u>	<u>\$ -</u>
<b>Net Position</b>		
Net investment in capital assets	\$ 4,890,340	\$ 856,000
Restricted net position	117,270	122,823
Unrestricted net position	10,209,622	10,121,819
<b>Total net position</b>	<u>\$ 15,217,232</u>	<u>\$ 11,100,642</u>

### CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

In 2020, 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.

# **CAPITALIZE ALBANY CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As part of continuing strategic plan implementation, the Corporation will begin working through redevelopment of Corporation owned property at 11 Clinton Ave. as part of a third-round New York State Downtown Revitalization Initiative awarded project. This property is currently underutilized and is located at a key gateway to the Capital City that greets more than 20,000 people daily who arrive into downtown Albany. Its premier location presents a distinct opportunity for redevelopment into a productive and vibrant destination. The Corporation's awarded DRI project is the first phase of a multi-phase project which stems from the Impact Downtown Albany strategic plan and was incorporated as a crucial project in Albany's Clinton Square DRI Neighborhood Plan. The project will ultimately result in the renovation of 11 Clinton Ave. into the Clinton Market Collective at Federal Park. Its design will create a welcoming vibrant space, enhance pedestrian connections and anchor Clinton Square's role as both an engaging destination and an introduction to the city's unique local arts and commercial venues.

## **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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 3,260,200	\$ 5,912,121
Investments (Note 4)	6,065,068	3,645,346
Restricted cash (Note 3)	6,830,301	621,837
Mortgage notes receivable, current portion, net (Note 5)	156,206	132,373
Accrued interest receivable	30,174	21,858
Grant receivables	439,101	411,269
Total current assets	<u>16,781,050</u>	<u>10,744,804</u>
Noncurrent Assets:		
Mortgage notes receivable, less current portion, net (Note 5)	1,147,495	1,332,849
Other receivables, net	103,126	96,178
Property held for investment and lease, net (Note 6)	1,809,193	1,869,761
Property and equipment, net (Note 7)	340,221	336,241
Liberty Park properties (Note 8)	4,005,841	10,958
Other assets	26,741	140,405
Total noncurrent assets	<u>7,432,617</u>	<u>3,786,392</u>
<b>Total assets</b>	<u>\$ 24,213,667</u>	<u>\$ 14,531,196</u>
<b>Deferred Outflows of Resources</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 108,755	\$ 382,970
Funds held related to Hudson River Way campaign	59,521	59,521
Unearned grant and other income	6,958,634	944,200
Bonds payable, current portion (Note 10)	210,000	200,000
Total current liabilities	<u>7,336,910</u>	<u>1,586,691</u>
Noncurrent Liabilities:		
Bonds payable, less current portion (Note 10)	940,000	1,150,000
Revolving loan fund liability (Note 11)	712,406	673,479
Unearned program support	7,119	20,384
Total noncurrent liabilities	<u>1,659,525</u>	<u>1,843,863</u>
<b>Total liabilities</b>	<u>\$ 8,996,435</u>	<u>\$ 3,430,554</u>
<b>Deferred Inflows of Resources</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Net Position</b>		
Net invested in capital assets	\$ 4,890,340	\$ 856,000
Restricted for:		
CDBG eligible activities	114,977	114,633
Other program specific activities	2,293	8,190
Unrestricted	10,209,622	10,121,819
Total net position	<u>\$ 15,217,232</u>	<u>\$ 11,100,642</u>

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, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenues</b>		
Grant and contribution income	\$ 710,231	\$ 1,003,131
Rental income	298,473	300,287
Other interest and investment income	287,030	68,581
Interest income on mortgage notes	59,731	74,358
Gain on sale of property	-	69,555
Fees, program, and other income	<u>466,833</u>	<u>417,067</u>
Total operating revenues	<u>1,822,298</u>	<u>1,932,979</u>
<b>Operating Expenses</b>		
Salaries and fringe benefits	801,249	760,640
Program and project costs	573,858	877,287
Professional and consulting expenses	240,268	225,173
Interest expense	19,503	22,554
Bad debt expense	44,304	-
Other administrative expenses	<u>135,004</u>	<u>113,836</u>
Total operating expenses	<u>1,814,186</u>	<u>1,999,490</u>
<b>Change in Net Position Before Capital Funding</b>	8,112	(66,511)
Capital grant funding	<u>4,108,478</u>	<u>-</u>
<b>Change in Net Position</b>	4,116,590	(66,511)
<b>Net Position, Beginning of Year</b>	<u>11,100,642</u>	<u>11,167,153</u>
<b>Net Position, End of Year</b>	<u>\$ 15,217,232</u>	<u>\$ 11,100,642</u>

See notes to consolidated financial statements.

**CAPITALIZE ALBANY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 381,268	\$ 305,986
Cash received from grantors and contributors	617,446	755,485
Other operating cash receipts	453,568	405,960
Cash payments to suppliers and grantees	(1,028,574)	(750,913)
Cash payments to employees	(801,249)	(760,640)
	<u>(377,541)</u>	<u>(44,122)</u>
<b>Cash Flows From Capital and Related Financing Activities</b>		
Proceeds from sale of property	-	700,000
Purchase of property and equipment	(23,272)	(20,243)
Purchase of Liberty Park properties	(3,994,883)	(10,958)
Cash received from capital grant funding	10,193,720	-
Principal payments on bonds payable	(200,000)	(350,000)
Interest paid on bonds payable	(19,503)	(25,621)
	<u>5,956,062</u>	<u>293,178</u>
<b>Cash Flows From Investing Activities</b>		
Interest on cash, cash equivalents, restricted cash, and investments	110,918	61,886
Proceeds from sales and maturities of investments	5,639,290	2,238,428
Purchase of investments	(7,919,842)	(2,286,933)
Issuance of mortgage notes receivable	-	(100,000)
Repayments received on mortgage notes and other receivables	147,656	540,259
Principal payments received under direct financing leases	-	188,148
	<u>(2,021,978)</u>	<u>641,788</u>
<b>Change in cash, cash equivalents, and restricted cash</b>	<b>3,556,543</b>	<b>890,844</b>
<b>Cash, cash equivalents, and restricted cash:</b>		
<b>Beginning of year</b>	<u>6,533,958</u>	<u>5,643,114</u>
<b>End of year</b>	<u>\$ 10,090,501</u>	<u>\$ 6,533,958</u>
<b>Reconciliation of Cash, Cash Equivalents, and Restricted Cash to the Statements of Net Position:</b>		
Cash and cash equivalents	\$ 3,260,200	\$ 5,912,121
Restricted cash	<u>6,830,301</u>	<u>621,837</u>
	<u>\$ 10,090,501</u>	<u>\$ 6,533,958</u>

See notes to consolidated financial statements.

**CAPITALIZE ALBANY CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**  
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
<b>Reconciliation of Change in Net Position Before Capital Funding to Net Cash Used in Operating Activities</b>		
Change in net position before capital funding	\$ 8,112	\$ (66,511)
Adjustments to reconcile change in net position before capital funding to net cash used in operating activities:		
Depreciation and amortization	194,775	189,785
Adjustment for losses on mortgage notes and other receivables	44,304	(11,107)
Gain on sale of properties	-	(69,555)
Net realized and unrealized (gains) losses on investments	(139,171)	29,540
Interest income on cash, cash equivalents, restricted cash, and investments	(112,460)	(67,220)
Interest expense on bonds payable	19,503	22,554
Changes in:		
Grant receivables	(25,812)	(311,269)
Other receivables, accrued interest receivable and other assets	(12,336)	(99,560)
Accounts payable and accrued expenses	(274,218)	275,598
Unearned grant and other income	(70,808)	61,088
Unearned program support	(13,265)	-
Revolving loan fund liability	3,835	2,535
Net cash used in operating activities	<u>\$ (377,541)</u>	<u>\$ (44,122)</u>

See notes to consolidated financial statements.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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, including capital grant funding, 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.



**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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 2019 or 2018.

**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.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**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 net realizable value 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.

**Liberty Park Properties**

Liberty Park consists of property within the boundaries of South Pearl Street, Madison Avenue, Broadway, and Hudson Avenue in the City of Albany, referred to as Liberty Park, held by the Corporation for possible redevelopment.

The Corporation records Liberty Park assets at historical cost. Cost is considered the appropriate basis for this project because several uncertainties exist with regard to the timing and nature of redevelopment completion. Cost includes the purchase price of the property (\$3,312,571) and site improvement and development costs (\$693,270). The costs of normal maintenance and operation of the properties that do not add to the value of the properties are not capitalized. Cost basis does not necessarily represent fair value.

See Note 8 for additional information.

**Other Assets**

In December 2017, Citywide entered into a Purchase and Sale Agreement with a real estate developer for the sale of property on Central Avenue in Albany for \$700,000. In 2018, Citywide acquired the property pursuant to a purchase option agreement with the City of Albany and immediately transferred ownership to the purchaser. A gain on the sale of approximately \$69,600 was recognized during 2018.

Property located at 174 North Pearl Street was vacant and as of December 31, 2018, a plan of reuse had not been developed and was included in other assets in the consolidated statement of net position at December 31, 2018. In 2019, the Corporation approved a plan to sell the property and it is classified as property held for investment and lease, net, in the consolidated statement of net position at December 31, 2019. The Corporation did not record depreciation on this asset in 2019 and 2018. In January 2020, the Corporation entered into a purchase and sale agreement for the sale of the 174 North Pearl property as well as certain other adjacent properties which are referred to as the "Palace Properties" (Note 6).

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

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

**Description of Leasing Arrangements**

The Corporation, as part of its mission, has entered into arrangements leasing various parcels of real estate. The lease terms range from one to thirty years. See Note 9 for further disclosure of these lease arrangements.

**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 24, 2020, the date the financial statements were available for issuance.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

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

**Subsequent Events** (Continued)

Global and domestic responses to the coronavirus disease (COVID-19) outbreak continue to rapidly evolve. The initial effect, which centered around global financial markets, has since spread to all organizations and businesses. Management's determination is that currently, there is minimal financial effect on the Corporation. However, management will continue to closely monitor financial results, including areas with a greater risk of potential adverse impact, including repayments of mortgage notes receivable and any significant decline in investment values. The ability of borrowers to repay mortgage notes can be impaired by a number of factors, including a pandemic such as COVID-19. Furthermore, in light of the global market's downturn, the Corporation will continue to monitor its investments as it has successfully done in the past, but has no immediate plans to significantly change its investment portfolio based on its current composition (see Note 4). As the situation continues to unfold, management may need to find ways to address the disruption of operations that may result from the virus' spread. At this point, the extent to which COVID-19 may impact the Corporation is uncertain.

**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, 2019, the carrying amount and the bank balances of the Corporation's deposits were approximately \$3,260,000 and \$3,312,000, respectively. Of the bank balances, approximately \$1,547,000 was insured under FDIC coverage. The remaining approximately \$1,765,000 was invested in a daily sweep/repurchase agreement with a financial institution which is invested in and fully collateralized by United States government issued securities but is not FDIC insured. There were no uncollateralized amounts at December 31, 2019.

**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:

	<u>2019</u>	<u>2018</u>
Liberty Park (ESD grant funds)	\$6,120,354	\$ -
CDBG eligible activities	114,977	114,633
EC/EDZ revolving loan fund	535,424	447,777
Hudson River Way campaign	59,546	59,427
Total restricted cash and cash equivalents	<u>\$6,830,301</u>	<u>\$ 621,837</u>

At December 31, 2019, bank balances of restricted cash were approximately \$6,830,000, of which approximately \$285,000 were not insured under FDIC coverage or collateralized. The Liberty Park (ESD grant funds) bank balance is fully collateralized by an undivided security interest in pooled U.S. federal agency and government sponsored enterprise securities in proportion to its deposit to the bank's total deposits secured by the pool. The total collateral value of the pool is maintained at a minimum of 100% of total deposits secured by the pool after FDIC insurance. Uncollateralized amounts were maintained with major financial institutions considered by management to be secure.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

**NOTE 4 — INVESTMENTS AND FAIR VALUE MEASUREMENTS**

Investments consist of the following at December 31:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Fixed Income Securities	\$ 5,557,216	\$ 5,591,748	\$ 2,737,459	\$ 2,732,987
Certificates of Deposit	-	-	358,697	359,185
Equities and Mutual Funds	267,620	418,600	388,695	500,192
Money Market	54,720	54,720	52,982	52,982
Total	<u>\$ 5,879,556</u>	<u>\$ 6,065,068</u>	<u>\$ 3,537,833</u>	<u>\$ 3,645,346</u>

Unrealized gains (losses) of approximately \$77,000 and (\$87,000) at December 31, 2019 and 2018, 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.

The following table sets forth, within the fair value hierarchy, the Corporation's assets at fair value at December 31, 2019 and 2018:

	2019		2018	
	Cost	Fair Value	Cost	Fair Value
Fixed Income Securities	\$ 5,557,216	\$ 5,591,748	\$ 2,737,459	\$ 2,732,987
Certificates of Deposit	-	-	358,697	359,185
Equities and Mutual Funds	267,620	418,600	388,695	500,192
Money Market	54,720	54,720	52,982	52,982
Total	<u>\$ 5,879,556</u>	<u>\$ 6,065,068</u>	<u>\$ 3,537,833</u>	<u>\$ 3,645,346</u>

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Money Market	\$ 54,720	\$ -	\$ -	\$ 54,720
Equities	418,600	-	-	418,600
Corporate Debt Securities	979,050	-	-	979,050
U.S. Treasury	4,235,535	-	-	4,235,535
Municipal Bonds	-	377,163	-	377,163
	<u>\$ 5,687,905</u>	<u>\$ 377,163</u>	<u>\$ -</u>	<u>\$ 6,065,068</u>

	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
	<u>\$ 3,034,372</u>	<u>\$ 610,974</u>	<u>\$ -</u>	<u>\$ 3,645,346</u>

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

**NOTE 5 — MORTGAGE NOTES RECEIVABLE, NET**

The Corporation's mortgage notes receivable are comprised of 27 and 31 individual accounts at December 31, 2019 and 2018, respectively, with an average outstanding principal balance approximating \$127,000 and \$115,000 at December 31, 2019 and 2018, 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 3.8% and 3.9% for the years ended December 31, 2019 and 2018, respectively. Current maturities range from 2020 through the year 2080.

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

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

	2019		2018	
	Number of Notes	Amount	Number of Notes	Amount
CDBG	1	\$ 33,735	1	\$ 33,735
UDAG	8	881,353	10	902,084
EC/EDZ	4	276,849	5	365,728
Revolving Real Estate Loan Fund	4	831,609	4	848,720
Other	10	1,403,599	11	1,429,334
	<u>27</u>	<u>3,427,145</u>	<u>31</u>	<u>3,579,601</u>
Less allowance for losses		<u>(2,123,444)</u>		<u>(2,114,379)</u>
Mortgage notes receivable, net		1,303,701		1,465,222
Less: current portion		<u>156,206</u>		<u>132,373</u>
Noncurrent		<u>\$ 1,147,495</u>		<u>\$ 1,332,849</u>

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 \$2,191,000 and \$2,134,000 at December 31, 2019 and 2018, respectively. The allowance for losses related to impaired loans approximated \$2,123,000 and \$2,114,000 at December 31, 2019 and 2018, respectively. Interest income recognized during 2019 and 2018 on impaired mortgage notes receivable, while such mortgage notes receivable were impaired, was not material.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 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, 2019:

	January 1, <u>2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Reclassification</u>	<u>Impairment</u>	December 31, <u>2019</u>
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 174 North Pearl	-	-	-	114,915	-	114,915
	4,753,947	-	-	114,915	-	4,868,862
Less accumulated depreciation	<u>2,884,186</u>	<u>175,483</u>	-	-	-	<u>3,059,669</u>
	<u>\$ 1,869,761</u>					<u>\$ 1,809,193</u>

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

	January 1, <u>2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Reclassification</u>	<u>Impairment</u>	December 31, <u>2018</u>
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	<u>225,000</u>	-	-	-	-	<u>225,000</u>
	4,753,947	-	-	-	-	4,753,947
Less accumulated depreciation	<u>2,708,704</u>	<u>175,482</u>	-	-	-	<u>2,884,186</u>
	<u>\$ 2,045,243</u>					<u>\$ 1,869,761</u>

**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).

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

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

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).

**NOTE 7 — PROPERTY AND EQUIPMENT, NET**

The following is a summary of changes in property and equipment for the year ended December 31, 2019:

	<u>January 1, 2019</u>	<u>Additions</u>	<u>Dispositions</u>	<u>December 31, 2019</u>
Land	\$ 49,300	\$ -	\$ -	\$ 49,300
Building and improvements	485,035	-	-	485,035
Furniture and equipment	147,459	23,272	-	170,731
Total	681,794	23,272	-	705,066
Less accumulated depreciation	345,553	19,292	-	364,845
	<u>\$336,241</u>	<u>\$ 3,980</u>	<u>\$ -</u>	<u>\$ 340,221</u>

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

	<u>January 1, 2018</u>	<u>Additions</u>	<u>Dispositions</u>	<u>December 31, 2018</u>
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
	<u>\$330,301</u>	<u>\$ 5,940</u>	<u>\$ -</u>	<u>\$ 336,241</u>

Depreciation expense, including depreciation expense on property held for investment and lease, was approximately \$195,000 and \$190,000 for the years ended December 31, 2019 and 2018, respectively.

**NOTE 8 — LIBERTY PARK PROPERTIES**

Liberty Park consists of property within the boundaries of South Pearl Street, Madison Avenue, Broadway, and Hudson Avenue in the City of Albany, referred to as Liberty Park, held by the Corporation for possible redevelopment.

The Corporation records Liberty Park assets at historical cost. Cost is considered the appropriate basis for this project because several uncertainties exist with regard to the timing and nature of redevelopment completion. Cost includes the purchase price of the property (\$3,312,571) and site improvement and development costs (\$693,270). The costs of normal maintenance and operation of the properties that do not add to the value of the properties are not capitalized. Cost basis does not necessarily represent fair value.



**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019 and 2018**

**NOTE 8 — LIBERTY PARK PROPERTIES (Continued)**

In December 2017, the Corporation entered into a Purchase and Sale Agreement with the Albany Convention Center Authority (ACCA) for the transfer of property interests in the roughly five acre ACCA surplus property surrounding Liberty Park in downtown Albany (Liberty Park) for a nominal purchase price of \$1. The Corporation and the ACCA closed on this transfer effective December 2019. As part of the agreement, the Corporation assumed a ground lease obligation expiring in 2038. Annual rent through August 2023 is \$174,000 with escalations in annual rent of \$12,000 every 5 years thereafter through August 2038.

In 2019, the Corporation was awarded up to \$15 million in Upstate Revitalization Initiative funds for the redevelopment of Liberty Park. Empire State Development (ESD) approved an initial investment of \$10.1 million for the acquisition of property rights (fee and/or leasehold interests as needed), emergency demolition, property maintenance, operation and stabilization, and administration, planning and design, which was transferred to a restricted cash account held by the Corporation during 2019. Drawdowns of grant funds from the restricted account must be approved by ESD.

The Corporation utilized a portion of the grant funds to purchase a portion of the Liberty Park site with existing leases that have since been terminated for \$3.3 million in November 2019, which is included in the Liberty Park properties asset in the accompanying 2019 consolidated statement of net position.

Significant assets, liabilities, revenues, and expenses associated with the Liberty Park properties as of and for the year ended December 31, 2019 are summarized below and included in the referenced category (financial statement line item) in the consolidated financial statements:

	<u><b>2019</b></u>
<b>Assets</b>	
Restricted cash	<u>\$6,120,354</u>
Liberty Park properties	<u>\$4,005,841</u>
<b>Liabilities</b>	
Unearned program support and revolving loan fund liability	<u>\$6,085,242</u>
<b>Capital grant funding</b>	<u>\$4,108,478</u>
<b>Program and project costs</b>	<u>\$ 113,816</u>

**NOTE 9 — 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. In addition, the Corporation entered into an agreement to lease a certain portion of the acquired Liberty Park properties.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

**NOTE 9 — OPERATING LEASES** (Continued)

The following is a schedule by year of the minimum future rentals to be received on non-cancellable operating leases as of December 31, 2019:

2020	\$ 368,266
2021	260,105
2022	231,257
2023	243,677
2024	255,933
Thereafter	<u>-</u>
	<u><u>\$1,359,238</u></u>

The Corporation leases the Corning Preserve Project to the Albany Port District Commission (the "Port") under a shared use and lease agreement (see Note 6). 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, 2019 and 2018, rental income approximated \$153,000 and \$156,000, 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 — BONDS PAYABLE**

The following is a summary of changes in bonds payable for the year ended December 31, 2019:

	<u>January 1,</u> <u>2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>December 31,</u> <u>2019</u>
Bonds Payable:				
AIDA Corning Preserve Project (A)	\$ 1,350,000	\$ -	\$ (200,000)	\$ 1,150,000
	1,350,000	-	(200,000)	1,150,000
Less current maturities	<u>200,000</u>			<u>210,000</u>
	<u>\$ 1,150,000</u>			<u>\$ 940,000</u>

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

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

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

**NOTE 10 — BONDS PAYABLE**

- (A) 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 \$210,000 in 2020 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, 2019 was 1.10%. The Corning Preserve Project is leased to the Port under a related agreement that has been classified as an operating lease (see Note 9).
- (B) 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 which expired in March 2018.

At December 31, 2019, principal and interest requirements to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$ 210,000	\$ 11,087
2021	220,000	8,709
2022	225,000	6,257
2023	240,000	3,677
2024	255,000	933
	<u>\$ 1,150,000</u>	<u>\$ 30,663</u>

**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 of such revenue was recognized for each of the years ended December 31, 2019 and 2018.

**CAPITALIZE ALBANY CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2019 and 2018

**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 \$56,000. 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 2019 and 2018, seven employees were covered by the SEP-IRA, and total contributions were approximately \$65,000 and \$57,000, respectively.

Effective January 1, 2020, the Corporation replaced the existing SEP-IRA plan with a company-sponsored 41(k) plan.

**Post Employment Benefit**

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

**NOTE 13 — COMMITMENTS AND CONTIGENCIES**

During 2015, the Corporation entered into a professional services agreement with the City of Albany with a five-year term, which has been renewed for an additional five-year term expiring in December 2024. 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, 2019 and 2018. The fee shall be automatically modified to reflect any salary and fringe adjustment to the City employee positions and any changes to expenses.

**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, 2019, 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 24, 2020.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Capitalize Albany Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capitalize Albany Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Capitalize Albany Corporation's internal control.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Capitalize Albany Corporation's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 24, 2020