Albany CONVENTION CENTER Authority

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

ALBANY CONVENTION CENTER AUTHORITY

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UHY LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the Board
Albany Convention Center Authority

We have audited the accompanying basic financial statements of the Albany Convention Center (the "Authority"), a component unit of the State of New York, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2012 on our consideration of the Authority'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.

UHY LLP

Albany, New York
March 2, 2012

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2011

The following is a discussion and analysis of the Albany Convention Center Authority, and its financial statements that reflect the financial activity that took place during the years ended December 31, 2011 and 2010.

Authority Background

The Albany Convention Center Authority ("ACCA") was created on September 21, 2004 by the enactment of Title 28-BB of the Public Authorities Law (Chapter 468 of the Laws of 2004). The general purpose of the ACCA is to design, develop, plan, finance, create, site, construct, renovate, administer, operate, manage, and maintain a convention facility located in the City of Albany (the "Project").

The Authority Board consists of nine members, three appointed by the Governor of New York State, one appointed by the Temporary President of the Senate, one member appointed by the Speaker of the Assembly, two members appointed by the Mayor of the City of Albany, with the advice and consent of the Common Council and two members appointed by the Albany County Executive, with the advice and consent of the County Legislature. All members of the board shall serve at the pleasure of their appointing authority.

Significant activities during 2011 and 2010 were as follows:

During the past two years the Albany Convention Center Authority has taken significant strides toward delivering a "shovel ready" project. The following is offered in summary of those efforts:

- Increased land inventory to nearly 75% of total needed for convention center project, including area for: Private hotel development opportunity and public development of the Intermodal/Parking facility;
- Continued negotiations with remaining land owners;
- Completed Phase 1-B Archeology within the Study Area for the center; received OPRHP approval of a Phase 2/3 Archeological study to coincide with the construction of the center.
- Implemented comprehensive plan and put in place professional teams to manage all owned structures and parking facilities for the period prior to construction;
- Engaged engineering consultants for a risk assessment and preliminary design for the relocation of existing utilities within the Study Area for the center;
- Continued discussions with OGS to attain control of the area under the South Mall arterial for both construction period staging and those operational needs for parking and the queuing of interstate, local and tour busses along with tractor trailers;
- Communicated economic impact potential of the convention center project to the public and all levels of state and local government via the website, presentations, and memorandum.
- As good stewards, initiated those improvements to the controlled properties necessary for life safety, the efficient management of the structures & parking lots, and as necessitated by the extended delay in receiving an approval to proceed with the project.
- As the result of Hurricane Irene and the subsequent flooding, the ACCA initiated:
    - Elevator repairs;
    - Basement cleanings in Bldgs. 2 & 3;
- To reduce operational costs, terminated utility services to Bldg. #6 and reduced the activity in Bldg. #4 to storage of site maintenance equipment exclusively

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2011

Overview of the Financial Statements

The financial statements provide summary information about the Albany Convention Center Authority's 2011 and 2010 operations including net assets. The notes provide explanation and additional details about the financial statements.

The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and the Government Accounting Standards Board (GASB). Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Net Assets 2011

	December 31, 2011	December 31, 2010	$ Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,059,774	$ 1,319,248	$740,526
Accounts and Grant receivable	406,966	467,169	(60,203)
Due from Albany County (Occ Tax)	374,055	366,224	7,831
Prepaid expenses and other	71,028	185,989	(114,961)
Total current assets	2,911,823	2,338,630	573,193
NON-CURRENT ASSETS			
Capital assets, net of accumulated depreciation	11,077,398	11,045,581	31,817
Total assets	$13,989,221	$13,384,211	$605,010
LIABILITIES			
Accounts payable and accrued expenses	$ 58,792	$ 73,415	$ (14,623)
Accrued wages and employee benefits	18,661	32,750	(14,089)
Total current liabilities	77,453	106,165	(28,712)
NON-CURRENT LIABILITIES			
Rent escalation liability	99,354	25,268	74,086
Total liabilities	176,807	131,433	45,374
NET ASSETS	13,812,414	13,252,778	559,636
Total liabilities and net assets	$13,989,221	$13,384,211	$605,010

Due to decreased activity of various project components in 2011, total liabilities and net assets increased by approximately $605,000 over 2010.

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2011

Significant changes to Net Assets

- Cash and cash equivalents increased by approximately $740,526 over 2010.
- Grants receivable decreased from $467,169 as of December 31, 2010 to $406,966 as of December 31, 2011.
- Expenses on operating leases are recognized on a straight-line basis. Accordingly, the rent escalation liability increased from $25,268 in 2010 to $99,354 in 2011. This represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases.
- Accounts payable decreased $14,623 from 2010 due to decreased activity in 2011.

Revenue and Expenses 2011

	January - December 2011	January - December 2010	$ Change
Revenues	$ -	$ -	$ -
Expenses			
Salary and wages	202,581	201,407	1,174
Fringe benefits	70,701	57,918	12,783
Office expense	60,319	57,316	3,003
Occupancy costs	45,660	45,950	(290)
Professional fees	84,256	60,659	23,597
Depreciation expense	73,221	26,225	46,996
Total expenses	536,738	449,475	87,263
Operating loss	(536,738)	(449,475)	(87,263)
Grants and other revenues			
Grant revenues	95,536	7,176,072	(7,080,536)
Hotel-Motel Occupancy Tax	1,157,970	1,070,710	87,260
Rental (loss) income, net	(159,553)	(101,447)	(58,106)
Interest income	2,421	3,866	(1,445)
Total grants and other revenues	1,096,374	8,149,201	(7,052,827)
Change in net assets	559,636	7,699,726	(7,140,090)
Total net assets beginning of year	13,252,778	5,553,052	7,699,726
Total net assets end of year	$13,812,414	$13,252,778	$ 559,636

Significant changes to Revenue and Expenses

- Fringe benefits increased by $12,783 over 2010 due to higher employer contributions to the NY Sate Retirement System as a result of the economic downturn’s impact on state investment holdings.

- Professional fees increased $23,597 in 2011 over 2010 due to greater use of hired accounting services as a result of 2010 purchases of occupied office and paid parking lot facilities requiring additional accounting oversight. In addition, legal fees increased as a result of tenant lease negotiations and compliance monitoring of the various laws governing the Authority.
- 2011 grant revenue decreased $7,080,536 from 2010 due to decreased land acquisition activity.
- Hotel/Motel Occupancy Tax (HOT) increased $87,260 in 2011 over 2010. This was due to the continuing recovery of the hospitality industry in Albany County from the economic downturn.
- Rental loss, net grew to $159,553 or $58,106 over 2010 due to continued attrition of tenants.

Project Status for 2012

In response to the request from the state to reduce the upfront cost of the project and simultaneously provide for public/private partnering opportunities during times of economic uncertainty, in accordance with a gubernatorial directive a revised concept plan has been developed.

The project has been segmented in to its three basic elements of; a free-standing convention center to be publicly developed and managed, a publicly developed parking facility to be constructed and managed in cooperation with other public agencies, and a privately financed hotel property.

Regarding the significant purchase of the occupied office complex with parking facilities, the rental properties will continue to be operated until construction begins thereby offsetting lease expenses. Beginning with this 2011 billing cycle, no real estate or school taxes were applicable for the purchased properties since as a public authority these properties are tax exempt.

On a parallel basis, the ACCA will in 2012 continue its effort for the release of additional funding from the original grant to complete the project design and in so doing be fully prepared for the earliest possible start date. The ACCA having submitted to government the requested revised plan of finance, now awaits an approval. Together these form two important next steps toward establishing a construction schedule and more fully prepare the site during 2012

Within the Study Area for the project there remain important opportunities to undertake necessary infrastructure work in advance of any type of development, including that of the convention center. The ACCA will continue to seek appropriate agency support for the following projects which, with control of the land, can be designed and bid in 90 – 120 days from approval, and produce nearly 200 construction related jobs for the duration:

- Improvements to utilities that increase capacity, promote economic development, and reduce overflows from combined sanitary sewers at an estimated cost of $5,500,000;
- Improvements to the transportation network to support redevelopment as well new economic development at an estimated cost of $6,700,000;
- Circulation improvements that will promote the use of mass transit and reduce energy consumption at an estimated cost of $4,600,000;
- Connection to the existing Office of General Services cooling intake utility as a source that will provide renewable energy opportunities for new development at an estimated cost of $3,900,000.

- Complete the purchase of land
- Undertake design of the center

In March 2011 the original State commitment of $75 million for the project was re-appropriated and the proposed budget for 2012-2013 again includes the re-appropriation. It remains for the State to approve the plan of finance and direct the Authority to proceed. In the interim, it is possible that:

- The convention center project is approved: then it could be completed in less than three years from the date of approval. Were the approval to be granted soon, then a 2012 start for construction is still possible, placing the opening date for the center in the 2014-2015 budget cycle.

- The convention center project is approved for a delayed start: then interim funding would be needed to complete any approved activities. The staff recommendation would be to complete the design, acquire all lands needed, advance the intermodal concept, secure a hotel developer, and commence all underground utility relocation.

- The convention center project is not approved but an alternative purpose is: then sources of funding would have to be determined to coincide with such alternative uses as may be directed by the State. In this instance the likelihood of receiving County of Albany Hotel-Motel Occupancy Tax would need verification were the new purpose to deviate from the uses provided for by the enabling legislation.

- The convention center project is not approved and no alternative is authorized: then the State would need to provide a directive whereby the activities of this Authority were unwound and a determination as to the disposition of all acquired assets.

The full accomplishment of the mission is contingent upon obtaining additional release of funds and funding for the project in its entirety.

The Authority has significant liquidity. The HOT allocation for the Authority has been approved through December 31, 2012. The Authority has incurred no long-term debt.

The Board of Directors and Authority management has budgeted for the next year based upon known sources of funds and a conservative use of funds with no deficit funding required. The proposed budget 2012/2013 re-appropriation of the original $75 million indicates some level of commitment by New York State for the project. Management and the board of directors remain committed to the project.

As a result of the conditions surrounding the operation of the Authority as of December 31, 2011 and for 2012, while there is some amount of uncertainty surrounding the governmental commitment to the project, the Authority’s vision mission and strategy continues.

ALBANY CONVENTION CENTER AUTHORITY
(A COMPONENT UNIT OF THE STATE OF NEW YORK)
STATEMENTS OF NET ASSETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,059,774**	$ 1,319,248
Accounts and grant receivable	**406,966**	467,169
Due from County of Albany, New York	**374,055**	366,224
Prepaid expenses and other	**71,028**	185,989
Total current assets	**2,911,823**	2,338,630
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	**11,077,398**	11,045,581
Total assets	**$ 13,989,221**	$ 13,384,211
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 58,792**	$ 73,415
Accrued wages and employee benefits	**18,661**	32,750
Total current liabilities	**77,453**	106,165
NONCURRENT LIABILITIES		
Rent escalation liability	**99,354**	25,268
Total liabilities	**176,807**	131,433
NET ASSETS		
Invested in capital assets net of related liabilities	**11,075,324**	11,020,159
Unrestricted	**2,737,090**	2,232,619
Total net assets	**13,812,414**	13,252,778
Total liabilities and net assets	**$ 13,989,221**	$ 13,384,211

See notes to financial statements.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended December 31, 2011 and 2010

	2011	2010
Revenues	**$ -**	$ -
Expenses		
Salaries and wages	**202,581**	201,407
Fringe benefits	**70,701**	57,918
Office expense	**60,319**	57,316
Occupancy costs	**45,660**	45,950
Professional fees	**84,256**	60,659
Depreciation	**73,221**	26,225
Total expenses	**536,738**	449,475
Operating loss before grants and other revenues	**(536,738)**	(449,475)
Grants and other revenues		
Grant revenues	**95,536**	7,176,072
Hotel-Motel Occupancy Tax	**1,157,970**	1,070,710
Rental (loss) income, net	**(159,553)**	(101,447)
Interest income	**2,421**	3,866
Total grants and other revenues	**1,096,374**	8,149,201
Change in net assets	**559,636**	7,699,726
Total net assets, beginning of year	**13,252,778**	5,553,052
Total net assets, end of year	**$ 13,812,414**	$ 13,252,778

See notes to financial statements.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Personal service payments	**$ (287,371)**	$ (262,259)
Cash payments to vendors, contractors and other professionals	**(152,016)**	(374,300)
Net cash used in operating activities	**(439,387)**	(636,559)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received for interest	**2,421**	3,866
Cash received on accounts and grants receivable	**155,739**	7,228,599
Cash received from County of Albany	**1,150,139**	837,249
Net cash provided by non-capital financing activities	**1,308,299**	8,069,714
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	**(128,386)**	(7,372,869)
Net cash used in non-capital financing activities	**(128,386)**	(7,372,869)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**740,526**	60,286
CASH AND CASH EQUIVALENTS, Beginning of year	**1,319,248**	1,258,962
CASH AND CASH EQUIVALENTS, End of year	**$ 2,059,774**	$ 1,319,248
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss before grants and other revenues	**$ (536,738)**	$ (449,475)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**73,221**	26,225
Rental loss	**(159,553)**	(101,447)
Net changes in assets and liabilities:		
Prepaid expenses and other	**114,961**	(175,829)
Accounts payable and accrued expenses	**82,811**	66,901
Accrued wages and employee benefits	**(14,089)**	(2,934)
Net cash used in operating activities	**$ (439,387)**	$ (636,559)
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets included in accounts payable	**$ 2,074**	$ 25,422

See notes to financial statements.

NOTE 1 — FINANCIAL REPORTING ENTITY

The Albany Convention Center Authority (Authority) is a Public Benefit Corporation created by the State of New York (State) Legislature in 2004 to design, develop, plan, finance, create, site, construct, renovate, administer, operate, manage and maintain a convention center facility (Project) to be located in the City of Albany, New York (City). Operations began with the creation of the Authority's Board in February 2006. The Authority's Board consists of nine members: three members appointed by the Governor of the State, one member each appointed by the Temporary President of the State Senate and the Speaker of the State Assembly, respectively, two members appointed by the Mayor of the City of Albany with the advice and consent of the City's Common Council, and two members appointed by the County of Albany, New York (County) Executive with the consent and advice of the County Legislature.

The Authority meets the criteria set forth in generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) for inclusion as a component unit within the State of New York's basic financial statements based on the State's responsibility for the appointment of a majority of the Authority members, and their approval of certain debt issuances. As a component unit, the Authority's financial statements may be discretely presented in the State of New York's basic financial statements. The accompanying financial statements present the financial position and the changes in net assets and cash flows of the Authority only. The Authority does not have any component units and is not involved in any joint ventures as of December 31, 2011.

History

The Authority expects to further its efforts with regard to its purpose to create a convention center facility in Albany, New York. The current plan will privatize the development of the hotel and parking portion of the project. The currently estimated $220 million cost of the convention center portion of the project is expected to be funded through State grant funds and the County of Albany Hotel-Motel Occupancy Taxes (HOT). During 2009, as part of a special legislative appropriation, the Authority received a grant from the Empire State Development Corporation (ESDC), a State public benefit corporation, to provide the Authority funds to continue to develop the convention center. A Grant Disbursement Agreement (GDA) of $10 million provides funding for pre-construction and site planning, and certain property acquisition, environmental remediation, archeology and historic conservation. The funding under this GDA was to expire December 31, 2010, however an extension was secured expiring June 30, 2012. Approximately $607,800 of funding under this grant remains available as of December 31, 2011. In March 2011 the original State commitment of $75 million for the project was re-appropriated and the proposed budget for 2012-2013 includes the re-appropriation. The continuation of the Authority's efforts in developing the convention center project, including the construction phase, is dependent upon the successful procurement of continued funding for the project from the State Grant, including additional State funding, and the issuance of tax exempt municipal bonds or other debt financings.

As of December 31, 2011, approximately 75% of the area contemplated for purposes of this Grant and Project have been acquired or secured under leases with development rights.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of GASB Statement No. 20, as amended, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Authority has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The more significant accounting policies are described below:

Basis of Accounting

The Authority's activities are accounted for similar to those often found in the private sector, using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized by federal deposit insurance or secured under a collateral pledge and control agreement.

The Authority manages its investments pursuant to Section 98(a) of the State Finance Law. Permitted investments are defined as obligations in which the State Comptroller may invest which include obligations of the United States and its Federal agencies, collateralized time deposits, commercial paper, bankers acceptances and repurchase agreements.

Accounts and Grants Receivable

Accounts and grants receivable principally consists of amounts due from an operating grant administered through ESDC for certain costs allowed under the grant agreement (Note 4). Receivables are recorded and revenue is recognized as the Authority incurs the allowable costs. No allowance has been established at either December 31, 2011 or 2010 for estimated uncollectible accounts and grant receivable as these amounts are considered fully collectible.

Due from the County of Albany, New York

During 2006, enabling legislation authorized a portion of Hotel-Motel Occupancy Tax revenue collected and remitted to the treasury of the County of Albany be set aside for use by the Authority (Note 5). The HOT revenue is recognized when earned based on management's estimates using budgeted and historical collection data adjusted each quarter based on actual amounts collected and deposited into an account designated by the Authority. Due from County of Albany, New York consists of the Authority's share of hotel taxes collected on behalf of the Authority. No allowance has been established at either December 31, 2011 or 2010 for estimated uncollectible amounts due from Albany County as these amounts are considered fully collectible.

Income Taxes

The Authority is a public benefit corporation of the State of New York. As such, income earned in the exercise of its essential government functions is exempt from state and federal income taxes.

Use of Estimates

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

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation of the current year financial statements.

NOTE 3 — CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents are categorized in accordance with criteria established by the GASB to give an indication of the level of risk assumed. Cash and cash equivalents as of December 31, are reflected below.

	2011		2010	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	$2,059,774	$2,072,470	$1,319,248	$1,354,061
	$2,059,774	$2,072,470	$1,319,248	$1,354,061

The cash and cash equivalents are fully collateralized by federal deposit insurance or secured under depository collateral agreements.

NOTE 4 — EMPIRE STATE DEVELOPMENT CORPORATION GRANT

In October 2006, as the result of a Grant Disbursement Agreement, ESDC (Note 1) approved the first advance of $2,097,000 appropriated for predevelopment and project costs project. The final appropriation was made in 2008.

In March 2009, ESDC approved an additional $10,000,000 grant (Capital Project #V767) to be used for the cost of pre-construction and site planning, land acquisition, environmental remediation, archeology, and history conservation, as part of a plan to build the convention center. The grant covers qualified expenditures during the period from April 1, 2008 through June 30, 2012. During 2011, approximately $95,500 was recognized as grant revenue for qualified expenditures ($7,176,100 in 2010). Approximately $392,200 of that amount was included in accounts and grants receivable for amounts expended but not reimbursed by the granting agency as of December 31, 2011 ($464,000 in 2010).

NOTE 5 — DUE FROM THE COUNTY OF ALBANY, NEW YORK

During 2006, legislation was amended which authorizes the County of Albany to impose and collect taxes from occupants of hotel-motel rooms in the County. Among other amendments, this legislation authorized a portion of hotel and motel occupancy taxes collected and remitted to the treasury of the County be deposited into a fund held separate and for the benefit of the Authority. Funds in excess of expenses and outstanding applications for withdrawals submitted by the Authority may be invested in accordance with certain provisions of law. Investment income earned is retained by the fund and made available to the Authority along with all other moneys of the fund. The County

NOTE 5 — DUE FROM THE COUNTY OF ALBANY, NEW YORK (Continued)

transfers moneys to the Authority's operating account on a quarterly basis which is to be used by the Authority for the development of the convention center project. This tax was originally subject to a sunset provision and ended in December 2008. This tax was re-enacted during 2009 with the tax imposed for the period from November 1, 2009 through December 31, 2010. The provisions of the legislation have been extended through December 31, 2012. The Hotel-Motel Occupancy Tax revenues for the years ended December 31, 2011 and 2010 was $1,157,970 and $1,070,710, respectively.

NOTE 6 — CAPITAL ASSETS

The following schedule summarizes the capital assets of the Authority and related changes from December 31, 2010 to December 31, 2011.

	December 31, 2010	Additions	Deletions	December 31, 2011
Building	$ 2,804,722	$ -	$ -	$ 2,804,722
Project development costs	8,261,680	105,038	-	8,366,718
Furniture and equipment	17,404	-	-	17,404
Total	11,083,806	105,038	-	11,188,844
Less: accumulated depreciation	(38,225)	(73,221)	-	(111,446)
Capital assets, net	$ 11,045,581	$ 31,817	$ -	$11,077,398

Project development costs consist principally of land costs, legal, other professional fees and other acquisition costs incurred through December 31, 2011 that are directly related to the Authority's Project. Building and equipment are capitalized and amortized over a period consistent with the underlying Project's estimated useful life when placed in service.

Buildings consist of the cost for buildings considered rentable and thus placed in service during the interim time frame between purchase in 2010 and construction of the convention center. Buildings are depreciated over 39 years. Buildings that were purchased during 2010, but not in a condition to be placed in service were recorded as project development costs. The net carrying value of the buildings will be transferred to project development costs when it is determined that the buildings are no longer placed in service and are being demolished for the construction of the convention center. All current leases as of December 31, 2011 have less than one year remaining or are continuing on a month to month basis.

In addition, in April 2010, the Authority acquired certain land utilized as a surface parking lot from Capitalize Albany Corporation for approximately $562,000. This amount is included in Project development costs and is not being depreciated. The parking lot is currently being leased for approximately $3,700 monthly through December 2014 and has a tenant option to renew for an additional five years. The Authority entered into a license agreement with Capitalize Albany Corporation to continue to collect the revenue for a 30% fee (Note 10). The future gross rentals on the non-cancelable lease related to this parking lot are receivable as follows:

Year ending December 31,	
2012	$ 44,751
2013	44,751
2014	44,751
	$ 134,253

NOTE 6 — CAPITAL ASSETS *(Continued)*

Depreciation expense related to furniture and equipment was approximately $1,300 and $2,200 for the years ended December 31, 2011 and 2010, respectively.

Depreciation expense for building was approximately $71,900 and $24,000 for the years ended December 31, 2011 and 2010, respectively.

NOTE 7 — RENTAL (LOSS) INCOME

As a result of the 2010 acquisitions of land, buildings and surface parking lots (Notes 1, 4, 6 and 10), the Authority commenced rental activities, utilizing management agents, relating to these properties. For the years ended December 31, 2011 and 2010, net rental losses on these properties approximated $161,300 and $101,400, respectively. Rental expenses consisted primarily of management fees, real estate taxes, utilities and maintenance costs.

The Authority, in carrying out its charge as a public authority, and consistent with enabling legislation, is not required to pay any fees, taxes, levies or assessments on real property it owns or are under its control or supervision. Therefore, realty taxes for these properties will not be a cost in future years.

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS

During 2006, the Authority's Governing Board passed a resolution to participate in the State of New York Retirement System and to provide retirees certain retirement benefits made available to participating employers by the State Retirement and Social Security Laws, including Chapters 1046 and 1047 of the Laws of 1973. Additionally, the Authority's Governing Board also passed a resolution to participate, pursuant to the provisions of Section 153(4) of the State Civil Service Law, in the Health Insurance Program for State Employees and Employees of Local Subdivisions in the State. In 2007, the Authority submitted the requisite paperwork for participation in both the State and Local Employees' Retirement System (ERS) and the State Health Insurance Program (NYSHIP). Both the ERS and the NYSHIP plans accepted the Authority's application for participation.

The ERS is a cost-sharing multiple-employer retirement system that provides retirement benefits as well as death and disability benefits. These benefits are provided in accordance with the State Retirement and Social Security Law (NYSRSSL), which also governs obligations of employers and employees to contribute. The benefits to employees are guaranteed under the State constitution. The Authority's election to participate in the State plan is irrevocable.

As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of ERS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of the funds. ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244-0001.

ERS is noncontributory except for employees with less than 10 years of service who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

The Authority contributed the required contributions to the ERS of approximately $31,800 and $21,400 during the years ended December 31, 2011 and 2010, respectively.

The Authority contributes 90% - 100% of the cost of individual employee coverage for medical insurance and 100% of additional costs for dependent coverage.

The Authority contributed approximately $23,800 and $21,400 to the NYSHIP during the years ended December 31, 2011 and 2010, respectively.

NOTE 9 — LINE OF CREDIT

The Authority has available a revolving demand line of credit totaling $300,000 with a bank. Borrowings under the line are collateralized by a lien and security interest in any and all deposits of the Authority held by the bank and or its affiliates and bear interest at the Wall Street Journal's Prime Rate plus 1.65%, adjusted annually (4.9% at December 31, 2011 and 2010). Interest on outstanding borrowings is due monthly. There were no borrowings outstanding at either December 31, 2011 or 2010.

NOTE 10 — CONTINGENCIES AND COMMITMENTS

Operating Leases

Office and equipment leases:

In April 2007, the Authority entered into a noncancelable operating lease for office space located in the City of Albany, New York. The initial term of the office facility lease is three years from the date of the lease, April 16, 2007, with an option to extend the lease for two additional years on a year to year basis. The lease has been extended through April 15, 2012.

In May 2010, the Authority entered into a non-cancelable operating lease for office equipment that expires in April 2013.

Future minimum lease payments under non-cancelable lease obligations with more than one year remaining on the lease are as follows:

Year Ending December 31,	Equipment
2012	$ 8,643
2013	2,840
	$ 11,483

Rental expense paid by the Authority and included with occupancy costs in the statement of revenues, expenses, and changes in net assets approximated $46,400 and $43,400 for the years ended December 31, 2011 and 2010, respectively.

***NOTE 10 — CONTINGENCIES AND COMMITMENTS** (Continued)*

Operating Leases (Continued)

Ground leases:

As a result of the acquisitions purchase of buildings and land made on August 24, 2010, the Authority was assigned ground leases relating to surface parking areas which contain development rights. These parcels are part of the area designated for the building of the convention center. Assignment of these ground leases allows for the Authority to take the existing leases over from the original lessee with the same terms in place. The ground leases are accounted for as operating leases. The leases include a purchase option for two of the three properties during the final five years of the lease term. During the interim time frame from assignment until the convention center is underway, the surface parking areas to which these leases relate are being rented on a daily, monthly and event basis utilizing management agents.

Future minimum lease payments under these land leases are as follows:

Year ending December 31,	
2012	$ 251,900
2013	278,800
2014	286,800
2015	286,800
2016	386,800
2017 - 2021	1,533,000
2022 - 2026	1,653,000
2027 - 2031	1,773,000
2032 - 2036	1,893,000
2037 - 2040	934,200
	$ 9,277,300

Lease expense recorded by the Authority and included in rental loss in the statement of revenues, expenses, and changes in net assets approximated $338,600 and $112,900 for the years ended December 31, 2011 and 2010, respectively. These leases include escalation amounts and have been recorded on a straight-line basis. Accordingly, a liability of approximately $99,400 and $25,300 is included in Rent Escalation Liability in the Statement of Net Assets at December 31, 2011 and 2010, respectively. This liability represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases.

Management and licensing fee commitments:

During 2009, the Authority acquired property in the form of a surface parking lot from GLI Inc. (GLI), doing business as Greyhound Lines. Coincidental with the closing, the Authority entered into a license agreement with GLI whereby for an annual fee of $10 GLI may use the property for the parking of its busses and employee cars consistent with the use prior to purchase. The license agreement is renewed annually and includes a right of termination by the Authority at any time as needed for the convention center project to proceed.

NOTE 10 — CONTINGENCIES AND COMMITMENTS *(Continued)*

Operating Leases (Continued)

Management and licensing fee commitments: (continued)

During 2009, the Authority acquired property in the form of surface parking lots from the County. Coincidental with the closing, the Authority entered into a license agreement with the County whereby for an annual fee of $10 the County may use the property for parking of Albany County owned vehicles and those of County employees consistent with the use prior to purchase. The license agreement is renewed annually and includes a right of termination by the Authority at any time as needed for the convention center project to proceed.

In April 2010, the Authority acquired certain land utilized as a surface parking lot from Capitalize Albany Corporation. As part of the purchase, the Authority received an assignment of a lease whereby Capitalize Albany Corporation leased the parking lot to 41 State Street for the lessee's annual use of the property with the address of 10 Dallius Street, Albany, NY. The Authority entered into a license agreement with Capitalize Albany Corporation as part of the purchase of the parking lot whereby Capitalize Albany Corporation continues to collect the annual lease fee from 41 State Street in exchange for a fee equal to 30% of the revenue collected. The 30% fee represents payment for Capitalize Albany Corporation to manage the lease, oversee the use of the property and collect and account for the fees. The license agreement is renewed annually and the Authority retains the right to terminate the agreement at any time as needed in order for the convention center project to proceed.

During August 2010, the Authority purchased land, buildings and ground leases with existing rental operations. During the period between acquisition and construction of the convention center, the Authority intends to continue to maintain the rental operations. To facilitate the rental operations, the Authority entered into several management agreements.

With respect to the buildings with office space rentals, for continuity and ease of transition for tenants, the Authority assumed a management agreement that had been in place prior to purchase. The management agreement calls for monthly payments of three percent of the rental and miscellaneous collections actually collected during the month with a minimum annual management fee of $25,000. The agreement has been extended to March 31, 2012, and has a termination clause with a sixty day written notice.

With respect to the surface parking lots, the Authority continues to rent the lots for daily, monthly and event purposes. The Authority entered into a management agreement for the management of the lots. The agreement calls for a monthly management fee of $650 and incentive fee equal to 20% of the increase, if any, in net operating income for each agreement year over the annualized net operating income generated in the first three months of the term. The agreement has an expiration date of October 1, 2012, and has a termination clause with a thirty day notice.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON OUR AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board
Albany Convention Center Authority

We have audited the financial statements of the Albany Convention Center Authority (the Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated March 2, 2012. We conducted our audit 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 Controller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

UHY LLP Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON OUR AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS* (Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors of the Albany Convention Center Authority, management, and State and Local regulatory and legislative bodies and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Albany, New York
March 2, 2012