Albany CONVENTION CENTER Authority

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Albany Convention Center Authority (the "Authority"), a component unit of the State of New York, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Albany Convention Center Authority, as of December 31, 2012 and 2011, and the changes in financial position and 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 3–7 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2013 on our consideration of the Albany Convention Center 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* in considering the Albany Convention Center Authority's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
March 21, 2013

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2012 and 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, 2012 and 2011.

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 are appointed by the Mayor of the City of Albany, with the advice and consent of the Common Council and two members are 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 2012 and 2011 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:

- Negotiations in progress with remaining land owners including:
    - Office of General Services (OGS);
    - Omni Development Corp.
    - Properties currently under lease;
- Acquired the former Trailways terminal on May 24, 2012 thus increasing the total land owned and controlled to approximately 75% of that required for the project. Of the 75%, full ownership/control has been secured for the areas designated to be occupied by the hotel, and intermodal and parking facilities. Future acquisitions to attain 100% of the necessary land for the entire project include additional lands designated for the convention center itself;
- Through December 31, 2012, the entire $10,000,000 Empire State Development Corp. (ESDC) Grant Disbursement Agreement for land acquisition, archeology, and environmental scopes has been invested;
- Working with the professional teams to manage all owned structures and parking facilities for the period prior to construction we have:
    - Negotiated month-to-month lease extensions for all remaining tenants to provide quickest response to approval to start the project;
    - Overseen the departure of major tenants, supporting their relocation within the downtown area;
    - Maximized parking revenue by reaching agreements with Holiday Inn Express for overflow parking and with the Times Union Center for support vehicle and truck parking during events held there;
    - Planned for out of service of all currently occupied areas in anticipation of the approval to proceed;

- As good stewards, the ACCA 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.
- To reduce operational costs the ACCA had terminated the utility services to Bldg. #6, #50 Hudson, and reduced the activity in Bldg. #4 to storage of site maintenance equipment exclusively. As tenants exit, the functions of #4 will be moved and consolidated in #2 & #3, resulting in #4 coming off line as well;
- Engaged engineering consultants for a risk assessment and preliminary design for the relocation of existing utilities within the Study Area for the center;
- Expanded the discussions with OGS regarding access by the convention center to the cooling water line to reduce energy consumption by the center;
- Discussed with OGS the 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 buses along with tractor trailers;
- Completed top-down review of ACCA Minority/Women Business Enterprise (MWBE) Policy to assure that it fully complies with current New York State policy. Presented changes to the ACCA board to adopt revised policy, including updated MWBE & Equal Employment Opportunity (EEO) goals based upon the disparity study commissioned by ESDC;
- Completed full review of building conditions and prepared Asbestos Containing Material abatement and demolition scopes for Trailways, E-Comm. #6 and 50 Hudson Avenue;
- Determined with the City, all future requirements for project review & that permitting by the City will not be required;
- Completed detailed analysis of Return on Investment over term of the bonds, of local economic impact from a completed center and submitted the analysis as supplemental information in support of the Consolidated Funding Application process under the Capital Region Economic Development Council Round Two;
- In developing 2013 budget, all costs are being reviewed for those that can be either reduced or eliminated, including:
  - Insurance on structures with consideration being given to self-insuring any unoccupied structures for the cost of demolition and removal;
    - Any on-going property and parking management needs as reflected by changing occupancy rates.
- In accordance with the tenant departures from E-Comm. Sq. bldgs. #2 & #3, installation of window protection and the termination of building utilities;
- As in all prior years; ACCA staff has met all requests for presentations, including those by: Capitalize Albany Corporation, Albany County Convention & Visitors Bureau, Central Business Improvement District, various candidates to elected office, and those from all elected/appointed officials of local, county & state government;
- As in all prior years; ACCA staff has met all requirements of the enabling legislation, Public Authorities Accountability Act, Public Authorities Reform Act, and the Authority Budget Office.

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2012 and 2011

Overview of the Financial Statements

The financial statements provide summary information about the Albany Convention Center Authority's 2012 and 2011 operations including net position. 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 Position 2012

	December 31, 2012	December 31, 2011	$ Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 2,154,546	$ 2,059,774	$ 94,772
Accounts and Grant receivable	1,032,036	406,966	625,070
Due from Albany County (Occ Tax)	370,122	374,055	(3,933)
Prepaid expenses and other	75,552	71,028	4,524
Total current assets	3,632,256	2,911,823	720,433
NONCURRENT ASSETS			
Capital assets, net of accumulated depreciation	11,574,963	11,077,398	497,565
Total assets	15,207,219	13,989,221	1,217,998
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
Total assets and deferred outflows of resources	$15,207,219	$13,989,221	$1,217,998
LIABILITIES			
Accounts payable and accrued expenses	$ 78,417	$ 58,792	$ 19,625
Accrued wages and employee benefits	20,967	18,661	2,306
Total current liabilities	99,384	77,453	21,931
NONCURRENT LIABILITIES			
Rent escalation liability	160,655	99,354	61,301
Total liabilities	260,039	176,807	83,232
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION	14,947,180	13,812,414	1,134,766
Total liabilities, deferred inflows of resources and net position	$15,207,219	$13,989,221	$1,217,998

Due to decreased activity of various project components in 2012, total liabilities and net position increased by approximately $1,218,000 over 2011.

Significant changes to Net Position

- Cash and cash equivalents increased by approximately $95,000 over 2011.
- Grants receivable increased from $392,244 as of December 31, 2011 to $1,000,000 as of December 31, 2012.
- Expenses on operating leases are recognized on a straight-line basis. Accordingly, the rent escalation liability increased from $99,354 in 2011 to $160,655 in 2012. This represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases.

Revenue and Expenses 2012

	January - December 2012	January - December 2011	$ Change
Revenues	$ -	$ -	$ -
Expenses			
Salary and wages	206,380	202,581	3,799
Fringe benefits	76,533	70,701	5,832
Office expense	32,317	60,319	(28,002)
Occupancy costs	50,929	45,660	5,269
Professional fees	77,017	84,256	(7,239)
Depreciation expense	73,221	73,221	-
Total expenses	516,397	536,738	(20,341)
Operating loss	(516,397)	(536,738)	20,341
Grants and other revenues (losses)			
Grant revenues	607,756	95,536	512,220
Hotel-Motel Occupancy Tax	1,185,031	1,157,970	27,061
Rental loss, net	(143,788)	(159,553)	15,765
Interest income	2,164	2,421	(257)
Total grants and other revenues	1,651,163	1,096,374	554,789
Change in net position	1,134,766	559,636	575,130
Total net position beginning of year	13,812,414	13,252,778	559,636
Total net position end of year	$14,947,180	$13,812,414	$1,134,766

Significant changes to Revenue and Expenses

- Fringe benefits increased by $5,832 in 2011 due to the impact of the New York State Retirement System results vary each year.
- Office expense decreased $28,002 over 2011 primarily due to elimination of live webcasting of monthly meetings and reduction in public relation activities.

- Professional fees decreased $7,239 in 2012 over 2011 due to less use of hired accounting services as a result of the 2010 purchases of occupied office and paid parking lot facilities requiring additional accounting oversight. In addition, legal fees decreased as a result of only one land purchase in 2012 and greatly reduced tenant lease negotiations as tenants vacated.
- 2012 grant revenue increased $512,220 over 2011 due to submission to ESDC of accumulated eligible reimbursable expenses for release of the final 10%, or $1 million, the agency was withholding.
- Hotel/Motel Occupancy Tax (HOT) increased $27,061 in 2012 over 2011. This was due to a small increase in hospitality industry occupancy in Albany County.
- Rental losses were $15,765 lower in 2012 over 2011 due to change in rental revenue mix between office space and parking.

Project Status for 2013

The ACCA awaits the direction of State government regarding the future of the concept plan and the use of the lands controlled by the Authority. In the interim, due to declining occupancy levels the ACCA has shuttered the office structures acquired and will maintain those properties in a mothballed state pending a directive regarding their future, and is prepared to undertake their demolition in the interim. The ACCA will continue to maintain limited parking on a daily and monthly basis and for special events in the surface parking lots.

Pending the outcome of the NYS Budget process, on the presumption that the original ESDC grant is re-appropriated, the ACCA is prepared to complete those interim projects necessary to future development such as:

- 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.
- Purchase additional land

Consistent with its mission, the ACCA will continue its supporting role for those efforts led by the County and City to revitalize the downtown, recognizing the significance of the inter-relationships between existing facilities including the Times Union Center and the Empire State Plaza Convention Center, the importance of improving the existing connections, and establishing new relationships as well.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF NET POSITION

December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,154,546**	$ 2,059,774
Accounts and grant receivable	**1,032,036**	406,966
Due from County of Albany, New York	**370,122**	374,055
Prepaid expenses and other	**75,552**	71,028
Total current assets	**3,632,256**	2,911,823
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	**11,574,963**	11,077,398
Total assets	**15,207,219**	13,989,221
DEFERRED OUTFLOWS OF RESOURCES	**-**	-
Total assets and deferred outflows of resources	**$ 15,207,219**	$ 13,989,221
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 78,417**	$ 58,792
Accrued wages and employee benefits	**20,967**	18,661
Total current liabilities	**99,384**	77,453
NONCURRENT LIABILITIES		
Rent escalation liability	**160,655**	99,354
Total liabilities	**260,039**	176,807
DEFERRED INFLOWS OF RESOURCES	**-**	-
NET POSITION		
Net investment in capital assets	**11,566,263**	11,075,324
Unrestricted	**3,380,917**	2,737,090
Total net position	**14,947,180**	13,812,414
Total liabilities, deferred inflows of resources and net position	**$ 15,207,219**	$ 13,989,221

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 POSITION
Years Ended December 31, 2012 and 2011

	2012	2011
Revenues	**$ -**	$ -
Expenses		
Salaries and wages	**206,380**	202,581
Fringe benefits	**76,533**	70,701
Office expense	**32,317**	60,319
Occupancy costs	**50,929**	45,660
Professional fees	**77,017**	84,256
Depreciation	**73,221**	73,221
Total expenses	**516,397**	536,738
Operating loss before grants and other revenues	**(516,397)**	(536,738)
Grants and other revenues (losses)		
Grant revenues	**607,756**	95,536
Hotel-Motel Occupancy Tax	**1,185,031**	1,157,970
Rental loss, net	**(143,788)**	(159,553)
Interest income	**2,164**	2,421
Total grants and other revenues	**1,651,163**	1,096,374
Change in net position	**1,134,766**	559,636
Total net position, beginning of year	**13,812,414**	13,252,778
Total net position, end of year	**$ 14,947,180**	$ 13,812,414

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, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Personal service payments	**$ (280,607)**	$ (287,371)
Cash payments to vendors, contractors and other professionals	**(234,275)**	(152,016)
Net cash used in operating activities	**(514,882)**	(439,387)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received for interest	**2,164**	2,421
Cash received on accounts and grants receivable	**(17,314)**	155,739
Cash received from County of Albany	**1,188,964**	1,150,139
Net cash provided by non-capital financing activities	**1,173,814**	1,308,299
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	**(564,160)**	(128,386)
Net cash used in non-capital financing activities	**(564,160)**	(128,386)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**94,772**	740,526
CASH AND CASH EQUIVALENTS, Beginning of year	**2,059,774**	1,319,248
CASH AND CASH EQUIVALENTS, End of year	**$ 2,154,546**	$ 2,059,774
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss before grants and other revenues (losses)	**$ (516,397)**	$ (536,738)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**73,221**	73,221
Rental loss	**(143,788)**	(159,553)
Net changes in assets and liabilities:		
Prepaid expenses and other	**(4,524)**	114,961
Accounts payable and accrued expenses	**74,300**	82,811
Accrued wages and employee benefits	**2,306**	(14,089)
Net cash used in operating activities	**$ (514,882)**	$ (439,387)

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 position and cash flows of the Authority only. The Authority does not have any component units and is not involved in any joint ventures.

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) totaling $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 extensions were secured and it will now expire on March 31, 2013. As of December 31, 2012 the grant has been fully expended. In March 2012, the original State commitment of $75 million for the project was re-appropriated and the proposed budget for 2013-2014 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, including additional State funding, and the issuance of tax exempt municipal bonds or other debt financings. If the Project is not funded for its purpose, the State will then need to determine a new purpose for the Authority and its assets.

As of December 31, 2012, 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.

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 position, 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 investments 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, 2012 and 2011 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 (HOT) 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, 2012 and 2011 for estimated uncollectible amounts due from Albany County as these amounts are considered fully collectible.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Adoption of New GASB Accounting Standards

As of January 1, 2012, the Authority adopted GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The change has been applied retroactively.

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.

	2012		2011	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	$2,154,546	$2,158,019	$2,059,774	$2,072,470
	$2,154,546	$2,158,019	$2,059,774	$2,072,470

The cash and cash equivalents are fully collateralized by federal deposit insurance or secured under depository collateral agreements as follows at December 31, 2012:

FDIC insurance	$ 250,000
Uninsured and collateral held by pledging bank	2,034,233
	$ 2,284,233

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. 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 March 31, 2013. During 2012, approximately $607,800 was recognized as grant revenue for qualified expenditures ($95,500 in 2011) and $1,000,000 was included in accounts and grants receivable for amounts expended but not reimbursed by the granting agency as of December 31, 2012 ($392,200 in 2011). Of the $1,000,000 grant receivable, $278,154 was billed to ESDC for reimbursement prior to December 31, 2012 with the remaining $721,846 billed subsequent to December 31, 2012 for expenses incurred prior to that date. In accordance with the Grant Disbursement Agreement, ESDC will pay the last 10% of the grant when they are satisfied that the grant purpose has been achieved.

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 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 further extended through December 31, 2013. The Hotel-Motel Occupancy Tax revenues for the years ended December 31, 2012 and 2011 was $1,185,031 and $1,157,970, respectively.

NOTE 6 — CAPITAL ASSETS

The following schedule summarizes the capital assets of the Authority and related changes for the years ended December 31, 2012 and 2011:

	January 1, 2012	Additions	Deletions	December 31, 2012
Building	$ 2,804,722	$ -	$ -	$ 2,804,722
Project development costs (A)	8,366,719	570,786	-	8,937,505
Furniture and equipment	17,403	-	-	17,403
Total	11,188,844	570,786	-	11,759,630
Less: accumulated depreciation	(111,446)	(73,221)	-	(184,667)
Capital assets, net	$ 11,077,398	$ 497,565	$ -	$11,574,963

	January 1, 2011	Additions	Deletions	December 31, 2011
Building	$ 2,804,722	$ -	$ -	$ 2,804,722
Project development costs (A)	8,261,681	105,038	-	8,366,719
Furniture and equipment	17,403	-	-	17,403
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

(A) Project development costs consist principally of land costs, legal, other professional fees and other acquisition costs incurred which are directly related to the Authority's Project. These assets are not being depreciated.

Building and equipment are capitalized and depreciated 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 and furniture and equipment are depreciated over 3 years. Buildings that were purchased during 2010 and 2012, 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. All current leases as of December 31, 2012 have less than one year remaining or are continuing on a month to month basis.

NOTE 6 — CAPITAL ASSETS *(Continued)*

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,	
2013	$ 44,751
2014	44,751
	$ 89,502

Depreciation expense related to furniture and equipment was approximately $1,300 for both years ended December 31, 2012 and 2011.

Depreciation expense for building was approximately $71,900 for both the years ended December 31, 2012 and 2011.

NOTE 7 — RENTAL LOSS

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, 2012 and 2011, net rental losses on these properties approximated $143,800 and $159,600, respectively. Rental expenses consisted primarily of management fees, real estate taxes in 2011 (none in 2012), 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 beginning in 2012.

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.

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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.

The Authority contributed the required contributions to the ERS of approximately $36,300 and $31,800 during the years ended December 31, 2012 and 2011, 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 $25,100 and $23,800 to the NYSHIP during the years ended December 31, 2012 and 2011, 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, 2012 and 2011). Interest on outstanding borrowings is due monthly. There were no borrowings outstanding at either December 31, 2012 and 2011.

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 further extended for two years and runs through April 15, 2013.

NOTE 10 — CONTINGENCIES AND COMMITMENTS *(Continued)*

Operating Leases (Continued)

Office and equipment leases: (continued)

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

Rental expense paid by the Authority and included with occupancy costs in the statement of revenues, expenses, and changes in net position approximated $46,700 and $46,400 for the years ended December 31, 2012 and 2011, respectively.

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,	
2013	$ 255,900
2014	286,800
2015	286,800
2016	386,800
2017	298,800
2018 - 2022	1,564,000
2023 - 2027	1,684,000
2028 - 2032	1,803,000
2033 - 2037	1,923,000
2038 - 2040	540,400
	$ 9,029,500

Lease expense recorded by the Authority and included in rental loss in the statement of revenues, expenses, and changes in net position approximated $335,100 and $338,600 for the years ended December 31, 2012 and 2011, respectively. These leases include escalation amounts and have been recorded on a straight-line basis. Accordingly, a liability of approximately $160,700 and $99,400 is included in Rent Escalation Liability in the Statement of Net Position at December 31, 2012 and 2011, respectively. This liability represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases.

NOTE 10 — CONTINGENCIES AND COMMITMENTS *(Continued)*

Operating Leases (Continued)

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.

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, 2013, 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, 2013, and has a termination clause with a thirty day notice.

NOTE 11 — SUBSEQUENT EVENT

Subsequent to December 31, 2012, the Authority ceased leasing primarily all of its office space and certain of its parking lots which provided parking to employees of tenants. As a result, rental revenues will be limited to parking fees and costs will primarily relate to the operations of these lots and the land lease costs for certain parking lots.

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, 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, the financial statements of the Albany Convention Center Authority (the Authority), as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued our report thereon dated March 21, 2013.

Internal Control Over Financial Reporting

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

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Albany, New York
March 21, 2013