Albany CONVENTION CENTER Authority

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012

ALBANY CONVENTION CENTER AUTHORITY

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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, 2013 and 2012, 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, 2013 and 2012, 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 3–8 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 28, 2014 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 28, 2014

Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2013 and 2012

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, 2013.

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 2013 were as follows:

During this past year the Albany Convention Center Authority has proceeded under the guidance of New York State Office of General Services, to develop an alternative concept plan to locate a right sized convention facility between Eagle, Howard and Wendell Streets adjacent to the Empire State Plaza, the EGG, the Times Union Center and directly connected to the Empire State Plaza Walkway.

Commencing in January and culminating in the approval by Governor Cuomo to proceed with The Albany Capital Center, issued on December 17, 2013, the work scopes prepared for and then paralleled the following guidelines provided by New York State:

ACCA, City and County worked on the alternative plan following the re-appropriation in FY 13-14, the State has reviewed the plan and believe it merits exploring and will make Empire State Development (ESD) re-appropriated resources available to undertake the studies and assessment detailed below. At the end of that work the ACCA, County, City, & State will determine whether the plan is viable to move forward and achieve the established goals or not.

1. Commission an independent market study
2. Commission an independent management assessment and plan (Alternative Convention Center, Times Union, ESP Convention Center, & The Egg)
3. Develop a concept plan and building program
4. Develop a construction finance plan & critical path method
5. Secure appraisals of the land and buildings required
6. Conduct a preliminary State Environmental Quality Review Act (SEQRA) review

This process resulted in deliverables for review by OGS in November including:

- Market Study
- Management Assessment
- Concept Plan
- Conceptual Estimate
- Plan of Finance
- Critical Path Schedule
- Land Appraisals
- Survey
- Phase 1 Environmental Assessment
- Preliminary Title Investigation
- Preliminary SEQRA review including a public scoping session.
- Presentation Documents:
  - Renderings
  - Floor Plans
  - Building Program

Upon receipt of the approval from NYS, the ACCA commenced negotiations with all land owners for the purchase of the land required for The Albany Capital Center.

The ACCA contacted both the Architectural/Engineering and Construction Management firms previously selected through a competitive Request for Proposal process, to request updated proposals for Architectural and Construction Management services.

As good stewards, working with the professional teams to manage all owned structures and parking facilities for the period prior to construction ACCA staff has managed out of service protection of all formerly occupied structures/areas.

In developing the 2014 budget, all costs were reviewed for those that can be either reduced or eliminated, including all ACCA office operations, equipment and facilities.

- As in all prior years, ACCA staff has met all requests for presentations, including those by: CAC, ACCVB, Central BID, various candidates to elected office, and those from all elected/appointed officials of local, county & state government;

- As in all prior years; an independent auditor completed an annual audit in which no material defects were identified or noted.

- As in all prior years; ACCA staff has met all requirements of the enabling legislation, Public Authorities Accountability Act (PAAA), Public Authorities Reform Act (PARA), and the Authorities Budget Office (ABO).

Overview of the Financial Statements

The financial statements provide summary information about the Albany Convention Center Authority's 2013 and 2012 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 2013

	December 31, 2013	December 31, 2012	$ Change
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 3,373,377	$ 2,154,546	$ 1,218,831
Accounts and Grant receivable	1,239	1,032,036	(1,030,797)
Due from Albany County (Occ Tax)	398,779	370,122	28,657
Prepaid expenses and other	72,801	75,552	(2,751)
Total current assets	3,846,196	3,632,256	213,940
NONCURRENT ASSETS			
Capital assets, net of accumulated depreciation	8,749,368	11,574,963	(2,825,595)
Total assets	12,595,564	15,207,219	(2,611,655)
DEFERRED OUTFLOWS OF RESOURCES	-	-	-
Total assets and deferred outflows of resources	$12,595,564	$15,207,219	$ (2,611,655)
LIABILITIES			
Accounts payable and accrued expenses	$ 22,405	$ 78,417	$ (56,012)
Accrued wages and employee benefits	13,782	20,967	(7,185)
Total current liabilities	36,187	99,384	(63,197)
NONCURRENT LIABILITIES			
Rent escalation liability	218,222	160,655	57,567
Total liabilities	254,409	260,039	(5,630)
DEFERRED INFLOWS OF RESOURCES	-	-	-
NET POSITION	12,341,155	14,947,180	(2,606,025)
Total liabilities, deferred inflows of resources and net position	$12,595,564	$15,207,219	$ (2,611,655)

Significant changes to Net Position

- Cash and cash equivalents increased by approximately $1,000,000 over 2012 due to receipt of $1,000,000 grants receivable. In addition cash increased due to higher Hotel/Motel Occupancy Tax receipts.
- Expenses on operating leases are recognized on a straight-line basis. Accordingly, the rent escalation liability increased from $160,655 in 2012 to $218,222 in 2013. This represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases.

- In 2013, due to changes in the land use with the advent of state interest in a convention center project in another location, approximately $2,836,000 of non-land costs were written off and recognized in the statement of revenue, expenses, and changes in net assets.

Revenue and Expenses 2013

	January - December 2013	January - December 2012	$ Change
Revenues	$ -	$ -	$ -
Expenses			
Salary and wages	201,323	206,380	(5,057)
Fringe benefits	79,128	76,533	2,595
Office expense	28,954	32,317	(3,363)
Occupancy costs	53,683	50,929	2,754
Professional fees	64,922	77,017	(12,095)
Property held for project costs	52,367	-	52,367
Depreciation expense	18,519	73,221	(54,702)
Total expenses	498,896	516,397	(17,501)
Operating loss	(498,896)	(516,397)	17,501
Grants and other revenues (losses)			
Grant revenues	-	607,756	(607,756)
Hotel-Motel Occupancy Tax	1,244,498	1,185,031	59,467
Rental loss, net	(302,167)	(143,788)	(158,379)
Alternative initiative expenses	(216,151)	-	(216,151)
Loss on disposal of capital assets	(2,836,014)	-	(2,836,014)
Interest income	2,705	2,164	541
Total grants and other revenues (losses)	(2,107,129)	1,651,163	(3,758,292)
Change in net position	(2,606,025)	1,134,766	(3,740,791)
Total net position beginning of year	14,947,180	13,812,414	1,134,766
Total net position end of year	$12,341,155	$14,947,180	$ (2,606,025)

Significant changes to Revenue and Expenses

- 2013 grant revenue decreased to $0 from over $600,000 in 2012 due to the completion of grant in 2012.
- Hotel/Motel Occupancy Tax (HOT) increased nearly $60,000 in 2013 over 2012. This was due to increasingly strong hospitality industry occupancy in Albany County since the 2008/2009 economic downturn.
- Rental losses were over $150,000 higher in 2013 over 2012 due to attrition of monthly tenants and the many fixed costs remaining while the buildings are vacant and land leases continue.

- As described earlier, approximately $216,000 of expenses were incurred to explore alternatives to the original proposed location on Broadway and that would allow for the building of a right-sized center without the need for additional funding above the original state appropriation to the ACCA. There were no such costs in 2012.
- The loss on disposal of capital assets, as noted previously, was to reflect the reduction in the construction in progress capital assets for items that no longer provide a value for the property. These costs included the originally funded costs such as for pre-construction planning, architectural renderings and other related costs.

Project Status

Lands of the ACCA within the Study Area:
The ACCA has been informed by the State that NYS Office of General Services (OGS), working with Empire State Development Corp (ESD), will be developing a Request for Proposal (RFP) seeking developers for the land presently controlled by the ACCA within the Study Area. The timing for the issue of the RFP was discussed as fall 2014. The response time given by OGS for the RFP was 90 days.

At some point thereafter, OGS/ESD will take control of the land and related property controlled by the ACCA and will assume the costs of maintenance. In the interim, the ACCA will continue to bear the costs to maintain and insure the structures as vacant buildings, contract with LAZ for daily, monthly and event parking on 2 parking lots, rent a lot to Holiday Inn Express, rent a lot to the Times Union Center for event parking, and keep secured those lots and structures not in use

The Albany Capital Center:
In late December of 2013, the ACCA received direction from State government to proceed with a convention and meeting facility to be located at Eagle Street. The concept is smaller in size than was contemplated previously and will not require NYS subsidy. The name given the facility by NYS is The Albany Capital Center that will utilize approximately $63 million, representing the balance of the 2006 ESD grant for construction costs and then rely upon portions of the Albany County Hotel/Motel Occupancy tax (H.O.T.) to meet operational costs.

During 2014, the ACCA will be proceeding with all aspects of development, design, and construction including: Land Acquisition, SEQRA, Public Authority Control Board (PACB) approval, amendment of the Engineering and Architectural Services contracts issued to CHA and HNTB respectively, as a result of the public procurement processes completed in 2006 and 2007, and accept the response to the RFP issued in 2007 for Construction Management Services from Gilbane Co.

The estimated time line for The Albany Capital Center is approximately 28 months:
- Design & Programming: February 2014
- Land Acquisition: February-May 2014
- SEQRA Complete: May 2014
- PACB Approval: May 2014
- Early Bid Packages: May-June of 2014
- Construction Start: June 2014
- Construction Substantially Complete: July 2016

Consistent with its mission, the ACCA will continue its supporting role for those efforts led by NYS State, Albany County, and the City of Albany to revitalize downtown. Recognizing the significance of the inter-relationships between existing facilities including the Times Union Center, the Empire State Plaza Convention Center, the Egg, and the importance of improving the Empire State Plaza Walkway as the key connector to The Albany Capital Center, NYS OGS will be issuing an RFP for a common manager for all facilities in March of 2014. An early selection of the manager will permit that firm to participate in the development of the program for The Albany Capital Center.

Once the Engineer, Architect, and Construction Management firms are in place, the Construction-in-Progress (CIP) budget will be completed and submitted to the ACCA Board for its approval.

On a parallel schedule, the ACCA will be assisting the developer of the former DeWitt Clinton Hotel and related Wellington Row properties which are adjacent to The Albany Capital Center with the design of an enclosed elevated connector joining the renovated hotel and the new convention facility.

During the design and construction of The Albany Capital Center, The ACCA will be providing Owner's Representative services to Albany County for those renovations being proposed for the Times Union Center (TUC) including: Enclosing the main entrance, extending the concourse level into the atrium, adding meeting space, a new elevator, and general finish and functional improvements to the interior of the atrium and access areas.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF NET POSITION

December 31, 2013 and 2012

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 3,373,377**	$ 2,154,546
Accounts and grant receivable	**1,239**	1,032,036
Due from County of Albany, New York	**398,779**	370,122
Prepaid expenses and other	**72,801**	75,552
Total current assets	**3,846,196**	3,632,256
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	**8,749,368**	11,574,963
Total assets	**12,595,564**	15,207,219
DEFERRED OUTFLOWS OF RESOURCES	**-**	-
Total assets and deferred outflows of resources	**$ 12,595,564**	$ 15,207,219
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	**$ 22,405**	$ 78,417
Accrued wages and employee benefits	**13,782**	20,967
Total current liabilities	**36,187**	99,384
NONCURRENT LIABILITIES		
Rent escalation liability	**218,222**	160,655
Total liabilities	**254,409**	260,039
DEFERRED INFLOWS OF RESOURCES	**-**	-
NET POSITION		
Net investment in capital assets	**8,749,368**	11,566,263
Unrestricted	**3,591,787**	3,380,917
Total net position	**12,341,155**	14,947,180
Total liabilities, deferred inflows of resources and net position	**$ 12,595,564**	$ 15,207,219

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, 2013 and 2012

	2013	2012
Revenues	**$ -**	$ -
Expenses		
Salaries and wages	**201,323**	206,380
Fringe benefits	**79,128**	76,533
Office expense	**28,954**	32,317
Occupancy costs	**53,683**	50,929
Professional fees	**64,922**	77,017
Property held for project costs	**52,367**	-
Depreciation	**18,519**	73,221
Total expenses	**498,896**	516,397
Operating loss before grants and other revenues	**(498,896)**	(516,397)
Grants and other revenues (losses)		
Grant revenues	**-**	607,756
Hotel-Motel Occupancy Tax	**1,244,498**	1,185,031
Rental loss, net	**(302,167)**	(143,788)
Alternative initiative expenses	**(216,151)**	-
Loss on disposal of capital assets	**(2,836,014)**	-
Interest income	**2,705**	2,164
Total grants and other revenues (losses)	**(2,107,129)**	1,651,163
Change in net position	**(2,606,025)**	1,134,766
Total net position, beginning of year	**14,947,180**	13,812,414
Total net position, end of year	**$ 12,341,155**	$ 14,947,180

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, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Personal service payments	**$ (287,636)**	$ (280,607)
Cash payments to vendors, contractors and other professionals	**(705,238)**	(234,275)
Net cash used in operating activities	**(992,874)**	(514,882)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received for interest	**2,705**	2,164
Cash received on accounts and grants receivable	**1,030,797**	(17,314)
Cash received from County of Albany	**1,215,841**	1,188,964
Net cash provided by non-capital financing activities	**2,249,343**	1,173,814
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	**(37,638)**	(564,160)
Net cash used in non-capital financing activities	**(37,638)**	(564,160)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,218,831**	94,772
CASH AND CASH EQUIVALENTS, Beginning of year	**2,154,546**	2,059,774
CASH AND CASH EQUIVALENTS, End of year	**$ 3,373,377**	$ 2,154,546
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss before grants and other revenues (losses)	**$ (498,896)**	$ (516,397)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	**18,519**	73,221
Rental loss	**(302,167)**	(143,788)
Alternative initiative expenses	**(216,151)**	-
Net changes in assets and liabilities:		
Prepaid expenses and other	**2,751**	(4,524)
Accounts payable and accrued expenses	**10,255**	74,300
Accrued wages and employee benefits	**(7,185)**	2,306
Net cash used in operating activities	**$ (992,874)**	$ (514,882)

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 is to construct a convention center costing approximately $66 million. A new site was selected for this project in late 2013. It is expected that the assets accumulated for the predecessor project will be transferred to the state for other development purposes. In March 2013, the original State commitment of $75 million for the project was re-appropriated and the proposed budget for 2014-2015 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. 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.

Alternative initiative expenses include costs to investigate alternative plans and location for the convention center and current project site use alternatives.

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 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, 2013 and 2012 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, 2013 and 2012 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.

Adoption of New GASB Accounting Standards

As of January 1, 2013, the Authority adopted GASB 65, Items Previously Reported as Assets and Liabilities. This change had no impact on the 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.

	2013		2012	
	Carrying Value	**Bank Balance**	**Carrying Value**	**Bank Balance**
Cash and cash equivalents	$3,373,377	$3,384,894	$2,154,546	$2,158,019
	$3,373,377	$3,384,894	$2,154,546	$2,158,019

The cash and cash equivalents are fully collateralized by federal deposit insurance or secured under depository collateral agreements as follows at December 31, 2013:

FDIC insurance	$ 250,000
Uninsured and collateral held by pledging bank	3,658,559
	$ 3,908,559

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 (none in 2013) 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 (none at December 31, 2013).

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, 2014. The Hotel-Motel Occupancy Tax revenues for the years ended December 31, 2013 and 2012 was $1,244,498 and $1,185,031, respectively.

NOTE 6 — CAPITAL ASSETS

The following schedule summarizes the capital assets of the Authority and related changes for the years ended December 31, 2013 and 2012:

	January 1, 2013	Additions	Deletions	Transfers	December 31, 2013
Building	$ 2,804,722	$ -	$ (185,783)	$ (2,618,939)	$ -
Project development costs (A)	8,937,505	28,938	(2,836,014)	2,618,939	8,749,368
Furniture and equipment	17,403	-	-	-	17,403
Total	11,759,630	28,938	(3,021,797)	-	8,766,771
Less: accumulated depreciation	(184,667)	(18,519)	185,783	-	(17,403)
Capital assets, net	$ 11,574,963	$ 10,419	$ (2,836,014)	$ -	$ 8,749,368

	January 1, 2012	Additions	Deletions	Transfers	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

(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. During 2013, due to the change in use (no longer being the site for construction of the convention center) non-land related costs such as professional fees and architectural drawings associated with the project were written off and a loss of approximately $2,836,000 was recognized in the statement of revenue, expenses, and changes in net assets. The remaining balance at December 31, 2013 represents costs directly related to land acquisition and development that is expected to be transferred to NYS during 2014.

Building and equipment are capitalized and depreciated over a period consistent with the underlying Project's estimated useful life when placed in service.

NOTE 6 — CAPITAL ASSETS *(Continued)*

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 building rental operations ceased during 2013, and the net book value of approximately $2,619,000 was transferred to project development costs.

In connection with health and safety provisions for the now dormant building, costs of approximately $52,400 are included in the financial statement line property held for project cots.

Depreciation expense related to furniture and equipment was approximately $500 and $1,300 for the years ended December 31, 2013 and 2012, respectively.

Depreciation expense for building was approximately $18,000 and $71,900 for the years ended December 31, 2013 and 2012, respectively.

NOTE 7 — RENTAL LOSS

As a result of the 2010 acquisitions of land, buildings and surface parking lots (Notes 10), the Authority commenced rental activities, utilizing management agents, relating to these properties. For the years ended December 31, 2013 and 2012, net rental losses on these properties approximated $302,200 and $143,800, respectively. Rental expenses consisted primarily of management fees, lease expenses, utilities and maintenance costs.

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.

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

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 $37,800 and $36,300 during the years ended December 31, 2013 and 2012, 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 $25,600 and $25,100 to the NYSHIP during the years ended December 31, 2013 and 2012, 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, 2013 and 2012). Interest on outstanding borrowings is due monthly. There were no borrowings outstanding at either December 31, 2013 and 2012.

NOTE 10 — CONTINGENCIES AND COMMITMENTS

Operating Leases

Office lease:

The Authority has a month to month operating lease for office space located in the City of Albany, New York. Rental expense paid by the Authority and included with occupancy costs in the statement of revenues, expenses, and changes in net position approximated $40,900 and $37,600 for the years ended December 31, 2013 and 2012, 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. The surface parking areas to which these leases relate are being rented on a daily, monthly and event basis utilizing management agents.

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

Operating Leases (Continued)

Ground leases: (Continued)

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

Year Ending December 31,	
2014	$ 262,900
2015	286,800
2016	386,800
2017	298,800
2018	302,800
2019 - 2023	1,588,000
2024 - 2028	1,708,000
2029 - 2033	1,827,000
2034 - 2038	1,873,000
2039 - 2040	215,600
	$ 8,749,700

Lease expense recorded by the Authority and included in rental loss in the statement of revenues, expenses, and changes in net position approximated $336,400 and $335,100 for the years ended December 31, 2013 and 2012, respectively. These leases include escalation amounts and have been recorded on a straight-line basis. Accordingly, a liability of approximately $218,200 and $160,700 is included in Rent Escalation Liability in the Statement of Net Position at December 31, 2013 and 2012, 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.

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.

NOTE 10 — CONTINGENCIES AND COMMITMENTS *(Continued)*

Operating Leases (Continued)

Management and licensing fee commitments: (Continued)

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 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 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. 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 expired in 2013 when the building rental operations ceased.

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 continues on a month to month basis.

NOTE 11 — SUBSEQUENT EVENTS

During February 2014, the Authority entered into a purchase and sale agreement to purchase parcels of land located at the new site of the project in the amount of $4,050,000. The agreement subjects the seller to certain conditions including demolition of property and remediation of the site. The closing date is expected to be on or before June 1, 2014.

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, 2013, and the related notes to the financial statements and have issued our report thereon dated March 28, 2014.

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.

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 28, 2014