



AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2018 and 2017

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, 2018 and 2017, 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 qualified audit opinion.

Basis for Qualified Opinion

Accounting principles generally accepted in the United States of America requires capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. As of December 31, 2018 and 2017, the Authority evaluated capital assets for impairment and determined that the service utility and value of certain capital assets may have materially changed. As more fully described in Note 6 of the financial statements, the Authority entered into a \$1 purchase and sale agreement for certain capital assets. Based on the nature of this agreement, the Authority elected to depart from accounting principles generally accepted in the United States of America and continue to carry these capital assets at the historical costs until the sale is finalized.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion paragraph, 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, 2018 and 2017, 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 3–9 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 which 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 27, 2019 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 27, 2019

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

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 year ended December 31, 2018.

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 appointed by the Speaker of the Assembly, two appointed by the Mayor of the City of Albany, with the advice and consent of the Common Council and two 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 2018 were as follows:

The Albany Capital Center (ACC):

During 2018, the ACC as managed by SMG Worldwide Entertainment and Convention Venue Management ("SMG"), outperformed projections resulting in the following:

- 217 events
- 329 event days
- 28,870 Room-nights generated
- 101,009 visitors

For 2019 approximately 130 events with anticipated gross revenue in excess of \$1.2 million have been booked with 23 event contracts pending.

For 2020, 17 events with anticipated gross revenue of approximately \$300,000, have been booked with 9 event contracts pending.

In both instances, bookings are tracking ahead of the corresponding period in 2018.

The success of the Albany Capital Center in both marketing and operations is directly attributable to the 8 full time onsite SMG staff. The Director of Sales and Sales Coordinator attend select national and regional meeting planner events to showcase the Albany Capital Center, focusing on bookings out 12-24 months, and work closely with Discover Albany to identify the long lead events, those 24 months and beyond. Discover Albany utilizes among other tools, the Knowland lead generation service that is underwritten by the ACCA on an annual basis in support of the entire Albany market. Knowland provides current and future booking information specific to the Albany market based upon the unique capacity and current availability of the facilities within Albany County.

During 2018, a survey process was implemented to obtain feedback on the experience related to each event. Following each event, SMG issues a survey to all attendees and meeting planners. The results are shared with the ACCA Board on a quarterly basis and identify important metrics having to do with the guest experience. The performance of the SMG staff, the exclusive caterer, and preferred vendors including those for audio/visual, decorating and transportation are thereby measured, to better assure the greatest potential for repeat business and expanded bookings.

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

The Albany Convention Center Authority (ACCA):

In order to accurately assess the economic impact that the Albany Capital Center has upon the Capital Region, the ACCA established an Economic Impact Committee comprised of ACCA Board Members and Staff, and entered an MOU with the Albany County Convention and Visitors Bureau (ACCVB) aka Discover Albany (DA) to provide an independent third party review of the actual economic impacts resulting from events held at the ACC. The ACCVB/DA meets with the Economic Impact Committee and reports to the ACCA Board on a quarterly basis throughout the year and the resulting information is posted to the ACCA Website and distributed to stakeholders. From the ACC booking reports and data from hotels, SMG and event organizers, Discover Albany inputs the data into the Destinations International's Economic Impact Calculator (EIC), a recognized and respected standard analysis tool for the hospitality industry. The EIC Report generated is the sum of visitor, meeting planner, and exhibitor spending and forms the basis for the summary provided to the ACCA including visitor count, hotel room nights, sales tax receipts and jobs generated.

For the period March 31, 2017 through December 31, 2018, the life of the facility, the following economic impacts were determined:

• Total Visitor Spending	\$18,539,280
• State Taxes	\$1,186,291
• County Taxes	\$1,076,772
• Visitors	160,906
• Hotel Room Nights	33,205
• Full Time Equivalent Jobs supported by The ACC Events	9,513

In terms of economic impact, the Albany Convention Center Authority is tracking performance and measuring the impact on the local and regional economy. One of the critical components of the authority's mission is to provide significant economic and social benefits to the City and County of Albany and the entire capital district region. The ACCA is very pleased to report on the success of achieving this, as measured by the economic indicators listed above. In summary, in less than two years of operations, the Capital Center generated almost \$20 million in new spending to the local economy. Plus the benefits to the hospitality industry of contributing to over 33,000 new hotel room nights in Albany County alone.

For 2018, the ACCA share of the Albany County Hotel/Motel Occupancy Tax (HOT) continued at 3/6ths (3 points) of the total county receipts from the 6% tax charged to hotel guests that took effect with Substantial Completion of the Albany Capital Center on March 1, 2017. The total annual budgeted amount of approximately \$4 million, is distributed by Albany County quarterly and covers the operating losses incurred by the Albany Capital Center as well as funds reserves in accordance with the requirements contained in the Contract with SMG and to fund capital improvement accounts necessary to maintain the facility in good working order over time.

Other significant activities:

ACCA continues to retain control through ownership and by lease, of those properties originally considered for the convention center project. The ACCA and Capitalize Albany Corporation (CAC) are diligently pursuing the sale of the fee title parcels and assignment of the leased parcels to Capitalize Albany Corporation under the terms of a Purchase & Sales Agreement executed in December of 2017.

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

The ACCA is restricted by its enabling legislation from developing real property for purposes other than for convention facilities. Given that the Albany Capital Center has been constructed and is now operating, the ACCA is unable to re-develop the Former Site. However, the ACCA does have the ability to dispose of the Former Site, since it is no longer required for convention facilities (i.e. surplus). Given that the continued ownership and control of the Former Site places a significant economic burden on the limited resources available to the ACCA, which diverts such resources from the principal purposes of the ACCA's mission to operate the Albany Capital Center, it was recommended by staff and counsel that the ACCA expeditiously dispose of the former site in accordance with the Public Authorities Accountability Act (PAAA).

During 2017 an Empire State Development (ESD) study was performed and released that provided a suggested plan for re-development of the originally obtained properties at a location off Broadway in Albany and still held by ACCA. That study, in addition to unsuccessful attempts to generate developer interest in those properties, lead ACCA management and the ACCA Board of Directors to conclude that it would be in the best interest of ACCA and the municipalities involved to transfer the properties to an entity with the ability to re-develop those lands. At that time, it was determined that the historical cost of those properties as recorded by the ACCA may be impaired. There has been significant change in purpose, configuration and structures of and on those properties. The review of the potential impairment is not readily determinable without extensive and costly appraisal work which would include the need to provide an appraiser with information about the highest and best use of the lands. Since ACCA has made an agreement to transfer the properties and the leases that go with a portion of those properties to an economic development agency, it is not considered a practical expense for the Authority to incur. The range of potential values is significant and as such, not reasonable to determine as of December 31, 2018. Therefore, the historical cost remains on the financial statements presented as of that date.

Given that the ACCA expressed a general desire to see the Former Site put into productive use through a comprehensive re-development initiative, the method of disposition that would best achieve this goal would be to utilize a negotiated transaction after providing a 60 day notice to the Governor, Senate and Assembly. This method would enable the ACCA to transfer the Former Site to an entity capable of undertaking the implementation of a comprehensive redevelopment plan such as the types described in the Study. Furthermore, a transfer to a quasi-governmental entity (i.e. public authority, public benefit corporation, local development corporation) would give the ACCA better assurance that the Former Site will be developed in the public interest. Lastly, given that the Former Site is located in downtown Albany and any re-development should not be undertaken in isolation of other areas and needs within downtown Albany, the re-development should be locally driven through a local entity.

Therefore, in order to achieve the ACCA's desire to further the public interest by seeing the Former Site re-developed in a comprehensive manner, and in its highest and best use, it was recommended by staff and counsel that the ACCA pursue a negotiated disposition utilizing the 60 day notice process to a local quasi-governmental entity with development powers, such as a public authority, public benefit corporation or local development corporation that is capable of undertaking the implementation of a comprehensive re-development plan such as the types described in the Study.

A Purchase and Sale Agreement was approved by both the CAC and Albany ACCA Boards for transfer of property interests in the roughly five acre ACCA surplus property surrounding Liberty Park in downtown Albany. This decision followed a collaborative and intensive due diligence period during which Capitalize Albany Corporation weighed the possibility of driving reinvestment in the site given the results of the 2017 Empire State Development-led Feasibility Study and an analysis of site conditions and anticipated expenses. This agreement marks an important Regional economic development milestone and an advance toward transfer of the ACCA's surplus property and Liberty Park site redevelopment.

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Management Discussion and Analysis
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CAC while engaging in due diligence has on a parallel basis commenced discussions with fee title holders of those parcels currently leased to the ACCA. This is for the purpose of acquiring the fee title to all parcels described in the 3 leases currently in effect when acquiring the fee title to those held by the ACCA.

Overview of the Financial Statements

The financial statements provide summary information about the ACCA's 2018 and 2017 operations including net position. The notes provide explanation and additional details about the financial statements.

The ACCA's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) and Government Accounting Standards Board (GASB) with the exception of the potential impairment of properties as further described elsewhere in these financial statements. Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

Net Position

	<u>December 31, 2018</u>	<u>December 31, 2017</u>	<u>\$ Change</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,256,678	\$ 1,552,540	\$ (295,862)
Accounts receivable	358,362	299,242	59,120
Grant receivable	-	123,793	(123,793)
Due from County of Albany, New York	1,308,724	1,297,821	10,903
Prepaid expenses and other	121,207	112,217	8,990
Total current assets	<u>3,044,971</u>	<u>3,385,613</u>	<u>(340,642)</u>
NONCURRENT ASSETS			
Capital assets, net of accumulated depreciation	<u>85,497,264</u>	<u>87,197,822</u>	<u>(1,700,558)</u>
Total assets	<u>88,542,235</u>	<u>90,583,435</u>	<u>(2,041,200)</u>
DEFERRED OUTFLOWS OF RESOURCES			
Total assets and deferred outflows of resources	<u>90,652</u>	<u>78,598</u>	<u>12,054</u>
	<u>\$88,632,887</u>	<u>\$90,662,033</u>	<u>\$ (2,029,146)</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 393,155	\$ 265,479	\$ 127,676
Deferred revenue	305,502	276,924	28,578
Construction in progress and retainage payable	25,000	25,000	-
Accrued wages and employee benefits	16,179	23,838	(7,659)
Capital lease obligation, current portion	-	583,509	(583,509)
Total current liabilities	<u>739,836</u>	<u>1,174,750</u>	<u>(434,914)</u>
NONCURRENT LIABILITIES			
Capital lease obligation, net of current portion	-	392,383	(392,383)
Net pension liability	11,918	38,649	(26,731)
Rent escalation liability	339,055	305,488	33,567
Total liabilities	<u>1,090,809</u>	<u>1,911,270</u>	<u>(820,461)</u>
DEFERRED INFLOWS OF RESOURCES			
	<u>40,285</u>	<u>6,902</u>	<u>33,383</u>
NET POSITION			
Total liabilities, deferred inflows of resources and net position	<u>87,501,793</u>	<u>88,743,861</u>	<u>(1,242,068)</u>
	<u>\$88,632,887</u>	<u>\$90,662,033</u>	<u>\$ (2,029,146)</u>

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

Significant Changes to Net Position

- The Grants receivable as of December 31, 2017, was received during 2018. At that time, the grant was fully complete and as such, no grants receivable exist as of December 31, 2018.
- The material change in capital assets was primarily the result of depreciation, which did not begin until the date of Substantial Completion of March 1, 2017. Additionally, during 2018 there was an investment of approximately \$300,000 in basketball courts and hoops made in order to expand the offerings of the ACC.
- The capital lease obligations were fully paid off in December 2018.

Revenue and Expenses

	<u>2018</u>	<u>2017</u>	<u>\$ Change</u>
Revenues	<u>\$ 2,159,782</u>	<u>\$ 1,029,841</u>	<u>\$ 1,129,941</u>
Expenses			
Salary and wages	164,955	216,904	(51,949)
Fringe benefits	68,059	78,869	(10,810)
Insurance	124,407	122,656	1,751
Office expense	34,623	38,503	(3,880)
Occupancy costs	24,299	20,960	3,339
Professional fees	572,714	104,149	468,565
Other property held costs	828,917	65,783	763,134
Contractual services	3,210,228	2,152,351	1,057,877
Capital Center pre-opening expenses	-	142,204	(142,204)
Depreciation expense	<u>2,188,240</u>	<u>1,806,153</u>	<u>382,087</u>
Total expenses	<u>7,216,442</u>	<u>4,748,532</u>	<u>2,467,910</u>
Operating loss	<u>(5,056,660)</u>	<u>(3,718,691)</u>	<u>(1,337,969)</u>
Appropriations and other revenues (losses)			
State appropriations	-	12,973,481	(12,973,481)
Hotel-Motel Occupancy Tax	4,041,490	3,728,883	312,607
Capital gift	-	700,000	(700,000)
Grant revenue	-	123,793	(123,793)
Rental loss, net	(200,491)	(209,562)	9,071
Interest expense	(27,831)	(24,206)	(3,625)
Interest income	<u>1,424</u>	<u>3,001</u>	<u>(1,577)</u>
Total appropriations and other revenues (losses)	<u>3,814,592</u>	<u>17,295,390</u>	<u>(13,480,798)</u>
Change in net position	<u>(1,242,068)</u>	<u>13,576,699</u>	<u>(14,818,767)</u>
Total net position beginning of year	<u>88,743,861</u>	<u>75,167,162</u>	<u>13,576,699</u>
Total net position end of year	<u><u>\$87,501,793</u></u>	<u><u>\$88,743,861</u></u>	<u><u>\$ (1,242,068)</u></u>

**Albany Convention Center Authority
Management Discussion and Analysis
December 31, 2018 and 2017**

Significant Changes to Revenues and Expenses

- Revenues increased from approximately \$1.0 million to \$2.2 million and contractual services increased from approximately \$2.2 million to \$3.2 million due to a full year of operations and increased number of events at the ACC.
- Salaries, wages and benefits costs decreased in 2018 from those in 2017, due to a reduction in staff with the elimination of the Project Manager position by the ACCA Board.
- Professional fees increased from approximately \$104,000 to \$572,000 due to increased legal fees in 2018.
- Other property held costs in 2018 of almost \$830,000 consisted largely of emergency demolition costs for one of the former site buildings. As described elsewhere, the ACCA retains ownership and control of the former site and as such, continues to incur costs for those sites. An emergency demolition was required for public safety and health reasons.
- State appropriations decreased from approximately \$13 million in 2017 to \$0 due to the work on the ACC having been completed by the end of the first quarter of 2017.
- Hotel-Motel Occupancy Tax revenue increased approximately 8.4% in 2018 over 2017. The amount of Occupancy Tax revenue received annually is a product of the economy, number of available hotel/motel rooms and their occupancy.
- The Capital Gift of \$700,000 in 2017 was a one-time transaction related to the construction of the ACC and its connection to other facilities in close proximity.
- Grant revenue as reflected in 2017 was related to a one-time grant pertaining to energy efficient aspects of the construction of the ACC.
- The loss of approximately \$1.2 million in 2018 is the result of the facility being in operation for the full year of 2018 for operational purposes whereas in 2017 the construction phase, including the receipt of appropriations related to the construction as well as the gift and grant revenue described above was still occurring. As such, the majority of revenues shown in 2017 were to support the capital assets as appear in the statement of net position.

Currently known facts and circumstances

As described previously in this management discussion and analysis, due diligence by Capitalize Albany Corporation continues into 2019. It is expected that the transfer of the properties could occur in 2019.

In 2018, the ACCA satisfied the Fixtures, Furnishings & Equipment Leases held by M & T Bank, with the completion of all monthly payments and end-of-term balloon payments that was originally due and payable as of January 1, 2019.

In August of 2018, the ACCA was required to demolish and remove the structure located at the intersection of Broadway and Division St. known as E-Comm. Sq. 6 under an emergency demolition order issued by the City of Albany, utilizing funds otherwise earmarked for future capital expenses.

Subsequent to the demolition of E-Comm. Sq. 6, the ACCA undertook additional custodial work in, on and around the remaining structures, including, E-Comm. 2, 3, & 4 and the former Trailways Terminal in an effort to forestall additional decay as a result of building age, weather damage, and extensive vandalism, including roofing repairs, security fencing & barriers, and a conditions assessment conducted by a licensed Professional Engineer.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF NET POSITION

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,256,678	\$ 1,552,540
Accounts receivable	358,362	299,242
Grant receivable	-	123,793
Due from County of Albany, New York	1,308,724	1,297,821
Prepaid expenses and other	121,207	112,217
Total current assets	<u>3,044,971</u>	<u>3,385,613</u>
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	<u>85,497,264</u>	<u>87,197,822</u>
Total assets	<u>88,542,235</u>	<u>90,583,435</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>90,652</u>	<u>78,598</u>
Total assets and deferred outflows of resources	<u><u>\$ 88,632,887</u></u>	<u><u>\$ 90,662,033</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 393,155	\$ 265,479
Deferred revenue	305,502	276,924
Construction in progress and retainage payable	25,000	25,000
Accrued wages and employee benefits	16,179	23,838
Capital lease obligation, current portion	-	583,509
Total current liabilities	<u>739,836</u>	<u>1,174,750</u>
NONCURRENT LIABILITIES		
Capital lease obligation, net of current portion	-	392,383
Net pension liability	11,918	38,649
Rent escalation liability	339,055	305,488
Total liabilities	<u>1,090,809</u>	<u>1,911,270</u>
DEFERRED INFLOWS OF RESOURCES	<u>40,285</u>	<u>6,902</u>
NET POSITION		
Net investment in capital assets	85,472,264	86,196,930
Unrestricted	2,029,529	2,546,931
Total net position	<u>87,501,793</u>	<u>88,743,861</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 88,632,887</u></u>	<u><u>\$ 90,662,033</u></u>

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, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Revenues	\$ 2,159,782	\$ 1,029,841
Expenses		
Salaries and wages	164,955	216,904
Fringe benefits	68,059	78,869
Insurance	124,407	122,656
Office expense	34,623	38,503
Occupancy costs	24,299	20,960
Professional fees	572,714	104,149
Other property held costs	828,917	65,783
Contractual services	3,210,228	2,152,351
Capital Center pre-opening expenses	-	142,204
Depreciation	2,188,240	1,806,153
Total expenses	<u>7,216,442</u>	<u>4,748,532</u>
Operating loss before appropriations and other revenues	(5,056,660)	(3,718,691)
Appropriations and other revenues (losses)		
State appropriations	-	12,973,481
Hotel-Motel Occupancy Tax	4,041,490	3,728,883
Capital gift	-	700,000
Grant revenue	-	123,793
Rental loss, net	(200,491)	(209,562)
Interest expense	(27,831)	(24,206)
Interest income	1,424	3,001
Total appropriations and other revenues (losses)	<u>3,814,592</u>	<u>17,295,390</u>
Change in net position	(1,242,068)	13,576,699
Total net position, beginning of year	<u>88,743,861</u>	<u>75,167,162</u>
Total net position, end of year	<u><u>\$ 87,501,793</u></u>	<u><u>\$ 88,743,861</u></u>

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from services	\$ 2,129,240	\$ 929,781
Personal service payments	(246,075)	(297,991)
Cash payments to vendors, contractors and other professionals	<u>(4,826,231)</u>	<u>(2,746,803)</u>
Net cash used in operating activities	<u>(2,943,066)</u>	<u>(2,115,013)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash received for interest	1,424	3,001
Cash received from County of Albany	<u>4,030,587</u>	<u>2,877,030</u>
Net cash provided by non-capital financing activities	<u>4,032,011</u>	<u>2,880,031</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash received from State appropriations	-	16,338,224
Cash received from grant revenue	123,793	-
Cash payments for interest	(27,831)	(24,206)
Cash payments on capital lease obligation	(975,892)	(221,782)
Acquisition of capital assets	<u>(504,877)</u>	<u>(18,443,013)</u>
Net cash used in non-capital financing activities	<u>(1,384,807)</u>	<u>(2,350,777)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	<u>(295,862)</u>	<u>(1,585,759)</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>1,552,540</u>	<u>3,138,299</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 1,256,678</u>	<u>\$ 1,552,540</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss before appropriations and other revenues (losses)	\$ (5,056,660)	\$ (3,718,691)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	2,205,435	1,812,320
Rental loss	(200,491)	(209,562)
Net changes in assets and liabilities:		
Accounts receivable	(59,120)	(299,242)
Prepaid expenses and other	(8,990)	(389)
Change in deferred outflows, inflows and net pension liability	(5,402)	(650)
Accounts payable and accrued expenses	161,243	103,587
Deferred revenue	28,578	199,182
Accrued wages and employee benefits	<u>(7,659)</u>	<u>(1,568)</u>
Net cash used in operating activities	<u>\$ (2,943,066)</u>	<u>\$ (2,115,013)</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets under capital lease	\$ -	\$ 1,197,674
Acquisition of capital assets through contributions	<u>\$ -</u>	<u>\$ 700,000</u>

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

The Authority constructed a convention center (Capital Center) at a cost of approximately \$78.8 million primarily funded through the New York State Office of General Services (OGS). The Capital Center opened for operations in March 2017.

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.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments (Continued)

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.

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 estimated share of hotel taxes collected on behalf of the Authority. No allowance has been established at either December 31, 2018 and 2017 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.

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.

Pension

The Authority accounts for pensions in accordance with GASB 68, Accounting and Financial Reporting for Pensions (GASB 68). This statement addresses accounting and financial reporting for pensions provided to Authority employees that are administered by the New York State and Local Employees' Retirement System. This statement also requires various note disclosures and required supplementary information. However due to the overall immaterial impact of this pension accounting on the statements of revenues, expenses, and changes in net position such note disclosures and required supplementary information have not been included.

ALBANY CONVENTION CENTER AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

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.

	2018		2017	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash and cash equivalents	\$1,256,678	\$1,288,281	\$1,552,540	\$1,582,004
	<u>\$1,256,678</u>	<u>\$1,288,281</u>	<u>\$1,552,540</u>	<u>\$1,582,004</u>

The cash and cash equivalents are fully collateralized at December 31, 2018.

NOTE 4 — NEW YORK STATE APPROPRIATIONS

In October 2006, as the result of a Grant Disbursement Agreement, the Empire State Development Corporation (ESDC) 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 final appropriation under this grant was recognized as revenue in 2012.

In May 2014, as the result of an Agreement, an additional \$62,903,000 was approved and is being administered through New York State Office of General Services for the development of the convention center, at a second and final site, now known as the Albany Capital Center. In April 2016, an additional \$12,000,000 was allocated to the project through OGS. Approximately \$12,973,000 was recognized as revenue for qualified expenditures for the year ended December 31, 2017. The project was completed in 2017 and there were no appropriations in 2018.

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 money 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, 2020. As of March 1, 2017, upon substantial completion of the Albany Capital Center, the Authority's share of the Hotel-Motel Occupancy Tax increased from 1% to 3%. The Hotel-Motel Occupancy Tax revenues for the years ended December 31, 2018 and 2017 were \$4,041,490 and \$3,728,883, respectively.

ALBANY CONVENTION CENTER AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 — CAPITAL ASSETS

The following schedule summarizes the capital assets of the Authority and related changes for the years ended December 31, 2018 and 2017:

	January 1, 2018	Additions	Deletions	Transfers	December 31, 2018
Land	\$ 4,070,381	\$ -	\$ -	\$ -	\$ 4,070,381
Building and building improvements	74,528,557	54,787	-	-	74,583,344
Construction in Progress	-	23,600	-	-	23,600
Other property held (B)	8,749,368	-	-	-	8,749,368
Furniture, equipment and other	1,691,094	426,492	-	-	2,117,586
Total	89,039,400	504,879	-	-	89,544,279
Less: accumulated depreciation	(1,841,578)	(2,205,437)	-	-	(4,047,015)
Capital assets, net	<u>\$ 87,197,822</u>	<u>\$ (1,700,558)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,497,264</u>

	January 1, 2017	Additions	Deletions	Transfers	December 31, 2017
Land	\$ -	\$ -	\$ -	\$ 4,070,381	\$ 4,070,381
Building and building improvements	-	-	-	74,528,557	74,528,557
Construction in Progress - Capital Center project costs (A)	65,598,371	13,020,567	-	(78,618,938)	-
Other property held (B)	8,749,368	-	-	-	8,749,368
Furniture, equipment and other	68,848	1,602,246	-	20,000	1,691,094
Total	74,416,587	14,622,813	-	-	89,039,400
Less: accumulated depreciation	(29,258)	(1,812,320)	-	-	(1,841,578)
Capital assets, net	<u>\$ 74,387,329</u>	<u>\$ 12,810,493</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87,197,822</u>

(A) Capital Center project costs consist principally of construction costs, land costs, legal, other professional fees and other pre-construction costs incurred which are directly related to the Capital Center located at 55 Eagle Street in Albany, New York. These assets were placed in service upon opening of the Capital Center in March 2017.

(B) Other property held consists principally of land costs and other acquisition costs incurred which are directly related to the Authority's original project location. These assets are not being depreciated. In December 2017, the Authority entered into a Purchase and Sale Agreement to sell this property to a not for profit organization for \$1 for other development purposes. As part of the agreement, the not for profit organization will also assume the ground leases (Note 11). The closing on this transaction is expected to occur in 2019 pending satisfaction of all conditions described in the Purchase and Sale Agreement. Accounting principles generally accepted in the United States of America requires capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. As of December 31, 2018 and 2017, the Authority evaluated capital assets for impairment and determined that the service utility and value of certain capital assets may have materially changed. Based on the nature of this agreement, the Authority elected to depart from accounting principles generally accepted in the United States of America and continue to carry these capital assets at the historical costs until the sale is finalized. At December 31, 2018 and 2017, the book value of these capital assets in the amount of approximately \$8.7 million, and related rent escalation liability (Note 11) of approximately \$339,000 and \$305,000, respectively, will be written off and recognized in the statement of revenues, expenses, and changes in net position at the completion of the sale. As a result, no impairment loss on other property held is reported in the statement of revenues, expenses, and changes in net position for the years ended December 31, 2018 and 2017.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 6 — CAPITAL ASSETS (Continued)

In connection with health and safety provisions for the other property held, costs of approximately \$828,900 and \$65,800 are included in the financial statement line other property held costs in the statements of revenues, expenses, and changes in net position for the years ended December 31, 2018 and 2017, respectively.

Building and building improvements, furniture, equipment and other assets are capitalized and depreciated over a period consistent with the underlying estimated useful life when placed in service. Depreciation expense related to building and building improvements, furniture, equipment and other assets was approximately \$2,205,400 and \$1,812,300 for the years ended December 31, 2018 and 2017, respectively.

NOTE 7 — CAPITAL LEASE OBLIGATION

In 2017, the Authority entered into certain capital lease arrangements in the amount of \$1,197,674 under which the related equipment will become the property of the Authority when all terms of the lease agreements are met. The lease required monthly payments of \$35,141 including interest of approximately 3.55%. Interest expense incurred on the capital lease obligation totaled approximately \$27,800 and \$24,200 for the years ended December 31, 2018 and 2017, respectively. The lease obligation was retired in December 2018.

NOTE 8 — 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, 2018 and 2017, net rental losses on these properties approximated \$200,000 and \$210,000, respectively. Rental loss consisted primarily of property management fees, lease expenses, utilities and maintenance costs, net of parking revenues.

NOTE 9 — RETIREMENT AND POST RETIREMENT BENEFITS

The two employees of the Authority participate in the New York State and Local Employees' Retirement System ("System" or "ERS").

The System is a cost-sharing multiple-employer defined benefit plan administered by the State Comptroller. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. In general, retirement benefits are determined based on an employee's individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual's employment tier. Pension factors are determined based on tier and an employee's years of service, among other factors. The System issues a financial report that includes financial statements and other information for the System which is available to the public. The financial report may be obtained from the New York State and Local Employees' Retirement System at www.osc.state.ny.us/retire.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 9 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

No employee contribution is required for those hired prior to July 1976. The System requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined the System from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership in the System. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Commission to the pension accumulation fund. The rate was 15.7% and 15.8% for the Commission's active employees for 2018 and 2017, respectively. Employee contributions are deducted from their salaries and remitted on a current basis to the System.

The Authority recognized net pension expense of approximately \$26,000 and \$30,700 for the years ended December 31, 2018 and 2017, respectively which is included in fringe benefits in the statements of revenue, expenses and changes in net position.

At December 31, 2018 and 2017 the Authority reported deferred outflows of resources, deferred inflows of resources, and liabilities for its proportionate share of the ERS deferred outflows of resources, deferred inflows of resources, and net pension liability, respectively. The ERS net pension liability was measured as of March 31, 2018 for 2018 and March 31, 2017 for 2017, and the total pension liabilities were determined by an actuarial valuation as of April 1, 2017 and 2016, with updated procedures used to roll forward the total pension liability to March 31, 2018 and 2017, respectively. The Authority's proportion was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for each fiscal year ended on the measurement date. At the March 31, 2018 and 2017 measurement date, the Authority's proportion was .0003693% and .0004113%, respectively.

The Authority has reported additional deferred outflows of resource as of December 31, 2018 and 2017 for employer contributions made subsequent to the measurement dates.

NOTE 10 — 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 (7.15% at December 31, 2018). Interest on outstanding borrowings is due monthly. There were no borrowings outstanding at December 31, 2018 and 2017.

NOTE 11 — CONTINGENCIES AND COMMITMENTS

Operating Leases

Office lease:

The Authority has an operating lease for office space located in the City of Albany, New York through June 2017, and currently extended on a month-to-month basis. Rental expense paid by the Authority and included with occupancy costs in the statements of revenues, expenses, and changes in net position approximated \$21,400 and \$15,400 for the years ended December 31, 2018 and 2017, respectively.

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 11 — CONTINGENCIES AND COMMITMENTS (Continued)

Operating Leases (Continued)

Ground leases:

As a result of the 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 original area designated for the building of the convention center. Assignment of these ground leases allowed 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 (2036 – 2040). 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:

<u>Year Ending</u> <u>December 31,</u>	
2019	\$ 284,900
2020	310,800
2021	320,800
2022	322,800
2023	326,800
2024 - 2028	1,712,000
2029 - 2033	1,832,000
2034 - 2038	1,878,000
2039 - 2040	215,600
	<u>\$ 7,203,700</u>

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 \$337,400 for the years ended December 31, 2018 and 2017, respectively. These leases include escalation amounts and have been expensed on a straight-line basis. Accordingly, a liability of approximately \$339,100 and \$305,500 is included in Rent Escalation Liability in the Statement of Net Position at December 31, 2018 and 2017, respectively. This liability represents the difference between actual lease payments made and the expense recorded on a straight line basis for the leases. As disclosed in Note 6, these leases are expected to be assumed by a not for profit organization in 2019 pending satisfaction of all conditions described in the Purchase and Sale Agreement.

Management and Licensing Fee Commitments:

Property:

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.

ALBANY CONVENTION CENTER AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 11 — CONTINGENCIES AND COMMITMENTS (Continued)

Management and Licensing Fee Commitments: (Continued)

Property: (Continued)

During 2009, the Authority acquired property in the form of surface parking lots from the County. Coincidental with the closing, the Authority entered into a license agreement with the County whereby for an annual fee of \$10 the County may use the property for parking of Albany County owned vehicles and those of County employees consistent with the use prior to purchase. The license agreement is renewed annually and includes a right of termination by the Authority at any time as needed with 30 days notice.

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 2019. 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 with 30 days notice.

During August 2010, the Authority purchased land, buildings and ground leases with existing rental operations. 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.

Lawsuits:

The Authority is a defendant in a suit in which a vendor is seeking damages related to construction of a capital project. The Authority is investigating the claims against it and intends to vigorously defend this action. The ultimate outcome of these matters is not presently determinable and no provision has been made in the accounts for any liability for this suit.

NOTE 12 — FACILITY OPERATOR AGREEMENTS

The management, operations and marketing of the Albany Capital Center is facilitated through a Management Agreement with SMG. The main term of the current agreement commenced on September 1, 2014 and ends at midnight on December 31, 2020. In accordance with the terms of the agreement, the Authority may, in its sole discretion, extend the term of the agreement on the same terms and conditions for an additional three-year period.

The agreement includes a pre-opening fee of \$4,000 per month through commencement of the management term. Pre-opening expenses including management fees were approximately \$142,000 for the year ended December 31, 2017 and included in Capital Center pre-opening expenses in the statement of revenues, expenses, and changes in net position.

ALBANY CONVENTION CENTER AUTHORITY

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 12 — FACILITY OPERATOR AGREEMENTS (Continued)

As part of this agreement SMG is responsible for the financial activity of the Albany Capital Center. SMG financially manages all revenues collected by the Albany Capital Center from rental income; income from food and beverage sales; revenue received from the operation of parking lots and other ancillary income. In turn, SMG utilizes these revenues to pay for expenses associated with operating the facility (i.e., salaries of permanent and temporary staff who orchestrate events and handle administrative functions; utility expenses; the promotion and advertising of the Albany Capital Center; and general facility maintenance and repair expenses). Financial activity of the Albany Capital Center is reviewed by management.

Performance of the Albany Capital Center is incorporated annually into the Authority's basic financial statements.

During the years ended December 31, 2018 and 2017, revenues from the Albany Capital Center are as follows:

	<u>2018</u>	<u>2017</u>
Direct event income		
Rental income	\$ 604,931	\$ 302,882
Service revenue	242,966	95,780
Ancillary income		
Food and beverage catering	797,925	423,171
Booth rental	1,471	1,505
Parking	88,503	34,418
Electrical	62,145	27,707
Audio visual	174,264	99,099
Other	1,630	895
Other operating income		
Advertising	95,725	35,167
Other	90,222	9,217
Total revenues	<u>\$ 2,159,782</u>	<u>\$ 1,029,841</u>

During the years ended December 31, 2018 and 2017, contractual services from the Albany Capital Center are as follows:

	<u>2018</u>	<u>2017</u>
Service expenses	\$ 658,718	\$ 261,451
Salaries and wages	1,042,356	871,556
Payroll taxes and benefits	402,404	273,605
General and administrative	286,655	288,537
Operating	63,964	52,635
Repairs and maintenance	281,431	124,986
Supplies	4,617	223
Insurance	17,633	10,613
Utilities	236,854	216,116
Depreciation	17,196	6,167
Management fee	198,400	188,666
Total expenses	<u>\$ 3,210,228</u>	<u>\$ 2,294,555</u>

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NOTES TO FINANCIAL STATEMENTS

December 31, 2018 and 2017

NOTE 12 — FACILITY OPERATOR AGREEMENTS (Continued)

As base compensation to SMG for providing services, the Authority shall pay SMG during each fiscal year of the main term and the renewal term, if any, an annual fixed fee as follows: 2017 Base Fee (\$100,000) under the 2014 Management Agreement as adjusted by change in CPI-U from January 1, 2018 through December 31, 2020.

SMG is also entitled to annual quantitative and qualitative incentive fees, as defined, with respect to each fiscal year. The incentive fee shall not exceed 50% of the aggregate compensation of fixed fee and incentive fee in any given fiscal year and shall be calculated as follows:

- (A) Quantitative incentive fee: not to exceed 70% of the annual fixed fee, equal to 25% of the amount by which the actual operating revenues exceed the revenue benchmark; provided, however, such eligibility is contingent upon SMG operating within the approved budget.
- (B) Qualitative incentive fee: an amount equal to 30% of annual fixed fee, eligible upon meeting the criteria defined in the Management Agreement.

SMG's incentive fees for the years ended December 31, 2018 and 2017 were \$102,200 and \$97,333, respectively.

In accordance with the terms of the Management Agreement, the Authority is required to provide the operator certain operating funds sufficient to meet operating expenses. During 2018 and 2017, the Authority provided SMG with \$1,376,579 and \$1,358,357, respectively, to meet operating expenses.

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

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, 2018, and the related notes to the financial statements and have issued our report thereon dated March 27, 2019.

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. We did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

Accounting principles generally accepted in the United States of America requires capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. As of December 31, 2018, the Authority evaluated capital assets for impairment and determined that the service utility and value of certain capital assets may have materially changed. As more fully described in Note 6 of the financial statements, the Authority entered into a \$1 purchase and sale agreement for certain capital assets. Based on the nature of this agreement, the Authority elected to depart from accounting principles generally accepted in the United States of America and continue to carry these capital assets at the historical costs until the sale is finalized.

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

Internal Control Over Financial Reporting (Continued)

Management response:

Management of the Authority concurs with the description of the departure as described. As noted, management made an informed decision that determining the potential impairment of certain capital assets would not be an appropriate use of the Authority's resources since the purchase and sale agreement is for \$1 and expected to be finalized in 2019.

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*.

The Authority's Response to the Finding

The Authority's response to the finding identified in our audit is described previously. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

UHY LLP

Albany, New York
March 27, 2019