CAPITALIZE ALBANY CORPORATION

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2015 and 2014

CAPITALIZE ALBANY CORPORATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Capitalize Albany Corporation

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capitalize Albany Corporation, which comprise the consolidated statements of net position as of December 31, 2015 and 2014, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

UHY LLP Certified Public Accountants

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Capitalize Albany Corporation as of December 31, 2015 and 2014, and the changes in their financial position and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 7 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2016, on our consideration of Capitalize Albany Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capitalize Albany Corporation's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
March 21, 2016

CAPITALIZE ALBANY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management Discussion and Analysis (MD&A) of Capitalize Albany Corporation (Capitalize Albany or the Corporation) activities and financial performance, is offered as an introduction and overview of the consolidated financial statements of Capitalize Albany Corporation for the fiscal year ended December 31, 2015. Following this MD&A are the basic consolidated financial statements of the Corporation together with the notes thereto which are essential to a full understanding of the data contained in the consolidated financial statements. In addition to the notes, this section also presents certain supplementary information to assist with the understanding of Capitalize Albany Corporation's financial operations.

Capitalize Albany Corporation has a Corporate Governance Policy which includes a conflict of interest policy and a conflict of interest disclosure. The conflict of interest disclosure is distributed to and completed by the Corporation's Board of Directors on an annual basis. Capitalize Albany Corporation has also adopted several policies as required under the Public Authorities Accountability Act (PAAA) of 2005 and the Public Authorities Reform Act (PARA) of 2009.

The Finance and Investment Committee meets on a quarterly basis or more frequently if necessary to provide enhanced project and transactional analysis. As necessary, the Committee makes recommendations for the Board's consideration. The Governance Committee meets twice a year or more frequently if necessary to among other things review and update corporate governance principles and practices. On a monthly basis, the Board of Directors of Capitalize Albany Corporation meets to discuss programming needs, project activity and progress, and meets quarterly to discuss the Corporation's financial position. The Audit Committee meets twice a year among other things to appoint and oversee the Corporation's independent auditors, review and approve the Corporation's year-end financial statements and reviews the effectiveness of internal controls. In addition, the Audit Committee, without management present, independently meets with the external auditors to discuss relevant issues and concerns.

OPERATION SUMMARY

In 1979, the Capitalize Albany Corporation (formerly Albany Local Development Corporation) was incorporated to primarily provide financing to eligible businesses in order to create and retain employment and investment within the City of Albany. The Corporation continues to extend loans and plays an active role in facilitating large-scale transformational real estate projects that the Corporation has identified as a priority.

The mission of Capitalize Albany Corporation is to facilitate economic development within the City of Albany. The Corporation has remained true to this mission since its inception and has a strong track record of adapting its strategies to meet shifting local and national trends in order to meet its mission.

As a catalyst for economic growth, Capitalize Albany Corporation facilitates transformational development projects. As a registered 501(c) (3) not-for-profit organization, the Corporation implements programs and resources to create, retain, and attract business in the City of Albany. Powered by investors composed of Albany's community and business leaders, Capitalize Albany manages and coordinates the local economic development functions in the City of Albany.

The Corporation takes an integrated approach and its work is reflected through its business and real estate development activities, and its strategic initiatives. These efforts are developed in partnership with regional stakeholders, and are backed by market analysis and trend identification. Implementation of its initiatives is accomplished through direct efforts of the Corporation as well as through collaboration with complementary organizations and tools.

Business Development

Capitalize Albany encourages job creation and business development through its work with individual businesses. This work includes, but is not limited to, extending loans to new and existing businesses, providing technical support with respect to accessing city, state and other economic development resources, and helping businesses to identify appropriate locations to grow and expand within the City. Capitalize Albany staff worked with more than 80 businesses in 2015. Capitalize Albany also works with government officials, business leaders, community and neighborhood organizations, and the public to ensure that the City maintains and enhances an environment that is both conducive to new business growth and supportive of the expansion of existing enterprises.

Capitalize Albany Corporation facilitates real estate transactions to expand and enhance business development and investment opportunities.

Real Estate Development

Capitalize Albany facilitates real estate development in the City of Albany through programs and partnerships as well as brick and mortar projects of its own. For example, the Corporation is working to market the 526 Central Avenue property for commercial redevelopment.

In 2010, the Corporation's Board of Directors established a Revolving Real Estate Loan Fund designed to provide subordinate lending to qualifying borrowers at below market rates in concert with primary lenders for the purpose of stimulating strategic development projects. The Board allocated $2 million to capitalize the Fund which is focused on revitalizing strategic vacant or underutilized real estate that will contribute positive and transformational development activity. Through December 31, 2015, $2,075,000 has been disbursed under this revolving loan fund program representing over $24 million of project investment within the City of Albany. These projects have created 124 market-rate rental units.

Contracted under a professional services agreement, Capitalize Albany administers and provides staffing, office equipment, phone and computer network support to the City of Albany Industrial Development Agency (CAIDA) and the City of Albany Capital Resource Corporation (CACRC). During 2015, several organizations utilized the programs and incentives of the CAIDA; the approval of the projects will result in over $100 million of investment within the City of Albany. These projects are anticipated to create or retain nearly 897 temporary and permanent jobs within the City and create more than 350 units of both affordable and market-rate housing.

Strategic Initiatives

The revitalization of Downtown Albany is a strategic priority of Capitalize Albany Corporation. In response to the recognized need for a common vision, strategic direction, and tactical solutions to issues facing the Downtown neighborhood, Capitalize Albany began working with a consultant team in 2013 to prepare a tactical revitalization plan for Downtown Albany. This tactical revitalization plan, the Impact Downtown Albany strategy, was completed and launched in 2014.

Impact Downtown Albany is a strategic plan which positions Downtown, its adjacent warehouse district and waterfront as the ideal urban center. Impact Downtown Albany provides bold, creative and actionable recommendations that honor Downtown Albany's rich history, capitalize on current momentum and maximize its future potential as the heart of New York State's "Tech Valley". The deliverables created by this project have provided a clear path forward for projects, incentives and structural changes and define what Downtown Albany should be striving toward throughout the next decade.

Implementation of Impact Downtown Albany began in 2014 and continues to be a driving force behind much of the growth seen in the City of Albany. Through December 31, 2015, Impact Downtown Albany has led to more than $250 million of project investment recently completed and underway within the City of Albany. Facilitating the creation of Downtown residential units continues to be a priority and will act as a driving market force for economic development. Under Impact Downtown Albany, the Corporation has assisted in the creation of more than 300 units to date.

In 2015, the Impact Downtown Albany strategy served as a core guiding document for the creation of the Capital Region Economic Development Council's new transformative strategy, the Capital 20.20 Plan (Capital 20.20). Capital 20.20 positions Albany to achieve its potential and capture its share of the global market. The Plan's Metro section prioritizes downtown development and matches Impact Downtown Albany catalyst sites with developers, resources, and prospective tenants to build on the current momentum and move aggressive projects forward.

Implementation of Capital 20.20 began in 2015 and will continue to be a priority for the Corporation in coming years.

The Corporation continues to follow the citywide economic development plan laid out in the Capitalize Albany Strategy. This strategy builds on strengths in the City's numerous employment and educational centers and addresses economic development projects in distressed neighborhoods. As guided by the Capitalize Albany Strategy, the Corporation has assisted in the more than $1 billion of activity that has occurred in areas outside of Downtown.

FINANCIAL OPERATIONS HIGHLIGHTS

Capitalize Albany Corporation's activities fluctuate greatly from year to year. With such diversity, it is not always meaningful to compare revenue and expenditure levels to prior years. While revenues and expenditures for any given year represent activity during that year, one must consider the level of program revenue to program expenses within a given year, in relation to the projects undertaken and accomplished during that same year. A condensed summary of revenues and expenses for the years ended December 31, 2015 and 2014 is shown below:

	2015	2014
Total revenues	$ 1,538,724	$ 3,134,920
Total expenses	1,692,321	1,672,865
Excess of revenues (under) over expenses	$ (153,597)	$ 1,462,055

Total revenues decrease $1,596,196 or 51%:

- Grant and contribution income decreased $23,910 or 3% from $698,397 in 2014 to $674,487 in 2015. Revenue derived from grants is typically program specific and non-recurring. Significant grants in 2015 include $250,000 from the IDA and $168,987 from the Albany Community Development Agency both for general economic development support.
- Rental income decreased by $50,330 or 15% from $344,500 in 2014 to $294,170 in 2015. This is primarily attributable to loss of rental property that the Corporation sold in 2014.
- Other interest and investment income decreased $76,349 or 45% from $170,426 in 2014 to $94,077 in 2015 primarily due to the change in fair market value of investments.
- Interest income on mortgage notes increased $3,152 or 4% from $88,737 in 2014 to $91,889 in 2015 due to issuance of new loans.
- Fees and other income increased $9,065 or 2% from $375,036 in 2014 to $384,101 in 2015. This is primarily attributable to the increased membership and sponsorship.
- There was a gain on sale of properties in the amount of $1,457,824 in 2014.

Total expenses decreased $19,456 or 1%:

- Salaries and fringe benefits increased $65,760 or 10% from $668,159 in 2014 to $733,919 in 2015. This increase reflects the hiring of three staff members to fill previously vacant positions which occurred during the first and second quarters of 2015.
- Program and project costs decreased $90,020 or 15% from $592,458 in 2014 to $502,438 in 2015. The decrease is primarily attributable to consultancy expenses incurred in 2014 as part of the creation of the Impact Downtown Albany Plan.
- Professional and consulting expenses decreased $112,568 or 30% from $371,011 in 2014 to $258,443 in 2015. This decrease is attributable to lower legal expenses and reduction of fees paid.
- Interest expense decreased $38,437 or 56% from $68,262 in 2014 to $29,825 in 2015. This decrease is attributable to reduced interest rates on the variable rate bonds that were issued to finance redevelopment projects supported by a capital lease as well as the maturity of Port Bonds which occurred in November of 2014.
- Bad debt recoveries totaled $2,787 in 2015 compared to $202,751 in 2014.
- Other administrative expenses decreased $5,243 or 3% from $175,726 in 2014 to $170,483 in 2015. This decrease is attributable to the modest decreases in various administrative expenses.

A condensed summary of Capitalize Albany's net position at December 31, 2015 and 2014 is shown below:

	2015	2014
Assets		
Cash and cash equivalents	$ 4,162,198	$ 4,088,738
Investments	3,437,044	3,411,362
Restricted cash	579,605	515,528
Other assets	892,144	899,542
Mortgage notes receivable, net of allowances	2,430,327	2,822,105
Net investment in direct financing leases	520,990	671,521
Property, plant and equipment, net (includes property held for investment and lease)	2,774,278	2,974,955
Total assets	$ 14,796,586	$ 15,383,751
Deferred Outflows of Resources	$ -	$ -
Liabilities		
Bonds payable	$ 2,350,000	$ 2,650,000
Other liabilities	708,966	839,471
Unearned program support and revolving loan fund liability	780,759	783,822
Total liabilities	$ 3,839,725	$ 4,273,293
Deferred Inflows of Resources	$ -	$ -
Net Position		
Net investment in capital assets	$ 879,278	$ 914,953
Restricted net position	299,912	304,993
Unrestricted net position	9,777,671	9,890,512
Total net position	$ 10,956,861	$ 11,110,458

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

In 2016, Capitalize Albany will focus on the continuing implementation of the Impact Downtown Albany Strategic Plan. This Plan has identified opportunities for economic development and growth in Downtown through the development of new programs and initiatives, focusing on a variety of areas, including long-range vision, community engagement, and market driven recommendations.

Capitalize Albany Corporation will also continue to focus on the implementation of the specific components of the Capital 20.20 Plan which are consistent with the mission of the Corporation. Special focus will be given to those projects which directly align with the objectives of Impact Downtown Albany.

Capitalize Albany will also continue to facilitate the Capitalize Albany Economic Development Strategy. As part of that strategy, the Corporation will continue to focus on developing more downtown residential capacity and will pursue opportunities that will result in catalytic development projects as well as maximize and diversify potential revenue sources for the Corporation.

Continual execution of the Capitalize Albany Strategic Plan established by the Corporation's Board in 2009 will translate into potential projects. New economic development opportunities with the potential to generate new resources to stimulate growth will be developed by re-focusing and deploying existing strengths and resources. Ultimately, programmatic, marketing, and financial initiatives will reconcile to the objectives set forth in the Capitalize Albany Strategic Plan.

FINANCIAL STATEMENTS

Capitalize Albany Corporation's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB). Capitalize Albany Corporation is organized under the Not-For-Profit Corporation laws of the State of New York. Capitalize Albany follows enterprise fund accounting; accordingly, the financial statements are presented using the economic resources management focus. These financial statements are presented in a manner similar to a private business.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Corporation's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Controller, Capitalize Albany Corporation, 21 Lodge Street, Albany, NY 12207.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF NET POSITION
December 31, 2015 and 2014

	2015	2014
Assets		
Current Assets:		
Cash and cash equivalents	**$ 4,162,198**	$ 4,088,738
Investments	**3,437,044**	3,411,362
Restricted cash	**579,605**	515,528
Mortgage notes receivable, current portion, net	**193,913**	188,334
Net investment in direct financing leases, current portion	**159,175**	149,937
Accrued interest receivable	**45,102**	58,671
Receivables from the City of Albany and City agencies	**100,020**	101,013
Total current assets	**8,677,057**	8,513,583
Noncurrent Assets:		
Mortgage notes receivable, less current portion, net	**2,236,414**	2,633,771
Other receivables	**88,131**	85,812
Net investment in direct financing leases, less current portion	**361,815**	521,584
Property held for investment and lease, net	**2,396,208**	2,571,691
Property and equipment, net	**378,070**	403,264
Other assets	**658,891**	654,046
Total noncurrent assets	**6,119,529**	6,870,168
Total assets	**$ 14,796,586**	$ 15,383,751
Deferred Outflows of Resources	**$ -**	$ -
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	**$ 132,294**	$ 253,576
Due to the City of Albany	**72,892**	99,521
Unearned grant and other income	**503,780**	486,374
Bonds payable, current portion	**320,000**	300,000
Total current liabilities	**1,028,966**	1,139,471
Noncurrent Liabilities:		
Bonds payable, less current portion	**2,030,000**	2,350,000
Revolving loan fund liability	**703,612**	702,825
Unearned program support	**77,147**	80,997
Total noncurrent liabilities	**2,810,759**	3,133,822
Total liabilities	**$ 3,839,725**	$ 4,273,293
Deferred Inflows of Resources	**$ -**	$ -
Net Position		
Net invested in capital assets	**$ 879,278**	$ 914,953
Restricted for:	**-**	
Debt service	**171,466**	171,446
CDBG eligible activities	**123,034**	120,278
Other program specific activities	**5,412**	13,269
Unrestricted	**9,777,671**	9,890,512
Total net position	**$ 10,956,861**	$ 11,110,458

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION

CONSOLIDATED STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION

For the Years Ended December 31, 2015 and 2014

	2015	2014
Revenues		
Grant and contribution income	**$ 674,487**	$ 698,397
Rental income	**294,170**	344,500
Other interest and investment income	**94,077**	170,426
Interest income on mortgage notes	**91,889**	88,737
Gain on sale of properties	**-**	1,457,824
Fees and other income	**384,101**	375,036
Total revenues	**1,538,724**	3,134,920
Expenses		
Salaries and fringe benefits	**733,919**	668,159
Program and project costs	**502,438**	592,458
Professional and consulting expenses	**258,443**	371,011
Interest expense	**29,825**	68,262
Bad debt recovery	**(2,787)**	(202,751)
Other administrative expenses	**170,483**	175,726
Total expenses	**1,692,321**	1,672,865
Excess of (expenses over revenues) revenues over expenses	**(153,597)**	1,462,055
Net Position, Beginning of Year	**11,110,458**	9,648,403
Net Position, End of Year	**$ 10,956,861**	$ 11,110,458

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Cash received from customers	**$ 444,149**	$ 545,091
Cash received from grantors and contributors	**695,981**	668,165
Other operating cash receipts	**371,785**	374,136
Cash payments to suppliers and grantees	**(869,134)**	(859,974)
Cash payments to employees	**(733,919)**	(668,159)
Net cash (used in) provided by operating activities	**(91,138)**	59,259
Cash Flows From Capital and Related Financing Activities		
Proceeds from sale of property	**-**	1,661,383
Purchase of property and equipment	**(6,878)**	(8,928)
Principal payments on bonds payable	**(300,000)**	(1,218,590)
Interest paid on bonds payable	**(32,413)**	(74,452)
Net cash (used in) provided by capital and related financing activities	**(339,291)**	359,413
Cash Flows From Investing Activities		
Interest on cash and cash equivalents and investments	**63,146**	69,295
Net increase in restricted cash	**(64,077)**	(66,545)
Proceeds from sales and maturities of investments	**1,954,644**	2,668,552
Purchase of investments	**(2,001,078)**	(3,221,860)
Issuance of mortgage notes receivable	**(275,000)**	(900,000)
Repayments received on mortgage notes and other receivables	**675,723**	401,621
Principal payments received under direct financing leases	**150,531**	1,067,359
Net cash provided by investing activities	**503,889**	18,422
Change in cash and cash equivalents	**73,460**	437,094
Cash and cash equivalents:		
Beginning of year	**4,088,738**	3,651,644
End of year	**$ 4,162,198**	$ 4,088,738

See notes to consolidated financial statements.

CAPITALIZE ALBANY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED
For the Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of Excess of (Expenses Over Revenues) Revenues Over Expenses to Net Cash Provided by Operating Activities		
Excess of (expenses over revenues) revenues over expenses	**$ (153,597)**	$ 1,462,055
Adjustments to reconcile excess of (expenses over revenues) revenues over expenses to net cash provided by operating activities:		
Depreciation and amortization	**207,555**	212,181
Adjustment for losses on mortgage notes and other receivables	**(8,946)**	(203,201)
Gain on sale of properties	**-**	(1,457,824)
Net realized and unrealized losses (gains) on investments	**20,752**	(660)
Interest income on cash and cash equivalents and investments	**(59,412)**	(69,831)
Interest expense on bonds payable	**29,825**	68,262
Changes in:		
Receivables from the City of Albany and City agencies	**993**	(1,013)
Other receivables, accrued interest receivable and other assets	**2,671**	11,919
Accounts payable and accrued expenses	**(118,693)**	67,026
Due to the City of Albany	**(26,629)**	14
Unearned grant and other income	**17,406**	(29,796)
Unearned program support	**(6,158)**	(450)
Revolving loan fund liability	**3,095**	577
Net cash (used in) provided by operating activities	**$ (91,138)**	$ 59,259

See notes to consolidated financial statements.

NOTE 1 — ORGANIZATION AND MISSION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Mission

Capitalize Albany Corporation (CAC) was formed under the Not-for-Profit Corporation Laws of the State of New York in October 1979 for the purposes of facilitating the creation of new employment opportunities, retaining existing jobs and encouraging investment that will expand the commercial and industrial tax base within the City of Albany (City). CAC facilitates large scale transformational real estate projects to accomplish its mission.

CAC's mission is accomplished by providing technical support for City, State and other economic development programs and loaning money to new or existing businesses. Additionally, CAC has invested in certain real estate, and leases such real estate to businesses in order to further job opportunities within the City.

CAC formed Citywide Property Holdings, LLC (Citywide) in April 2008 for the limited purpose of assisting CAC in the furtherance of CAC's mission. CAC is the sole member and manager of Citywide. Citywide’s participation in the furtherance of CAC's mission is evaluated on a project basis. This participation includes, but is not limited to, holding property as available for sale to enhance project development.

The consolidated financial statements represent the consolidated financial position and the consolidated changes in financial position and cash flows of CAC and Citywide. All intercompany transactions between CAC and Citywide have been eliminated for financial reporting purposes.

Component Unit Reporting

CAC was a component reporting unit of the City of Albany in 2014 and, as such, was also reported in the City of Albany's general purpose financial statements. Effective January 1, 2015, CAC is no longer a component reporting unit of the City of Albany.

Basis of Accounting and Presentation

CAC follows enterprise fund reporting; accordingly, the accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. CAC’s consolidated financial statements apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Revenue Recognition

CAC, under Urban Development Action Grants (UDAG) financing arrangements through the United States Department of Housing and Urban Development (HUD), has recognized grant amounts as mortgage notes receivable, with corresponding credits to deferred program support. Principal repayments on these notes are recognized as program income and are applied against deferred program support. The UDAG agreements provide that the program income, together with the interest earned thereon, are restricted by HUD to be used for Title I eligible activities. The deferred program support account, in CAC's consolidated balance sheet, is a contra account which reflects UDAG loan principal repayments scheduled to be received in future years. There were no new UDAG grants in either 2015 or 2014.

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

Cash and Cash Equivalents

Cash is comprised of various interest bearing and non-interest bearing deposits in several financial institutions. CAC considers all highly liquid investments with original maturities of three months or less to be cash equivalents except for cash equivalents included in the investment account, which are included in investments in the accompanying consolidated balance sheets.

Investments

Investments are carried at fair value, based on current market prices.

Mortgage Notes Receivable and Allowance for Losses

As explained further in Note 5, mortgage notes receivable are carried at the principal amount outstanding, net of an allowance for estimated uncollectible amounts. CAC's allowance for losses is evaluated on a regular basis by management and is estimated based on delinquency rates, current economic conditions, borrowers' outstanding balances, an analysis of borrowers' financial condition, and estimated value of any underlying collateral. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. The allowance for losses is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries.

Loans made by CAC to recipient entities are generally issued as part of larger financial packages involving additional lenders. Substantially all of CAC's mortgage notes receivable, which are collateralized by real property and/or equipment, are subordinated to the loans provided by these other lenders. In some cases, projected growth and overall economic conditions have substantially changed since loan origination. CAC attempts to work with borrowers who are experiencing financial difficulties and has entered into debt restructuring agreements with respect to certain financially troubled borrowers. These restructuring agreements often incorporate notes, for which current repayment is contingent upon favorable future events as specified in the note agreement. Such uncertainties have been considered by CAC in establishing the estimated allowance for possible losses.

CAC places impaired loans on nonaccrual status and recognizes interest income on such loans only on a cash basis. Accrual of interest is discontinued on a loan when management believes, after considering economics, business conditions, and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. Uncollectible interest previously accrued is charged off. Income is subsequently recognized only to the extent cash payments are received until, in management's judgment, the borrower's ability to make periodic interest and principal payments is back to normal, in which case the loan is returned to accrual status.

Property Held for Investment and Lease, Net

Property held for investment and lease is carried at the lower of cost or market and represents assets acquired to assist in CAC's mission of encouraging economic development and business retention within the City.

Property and Equipment, Net

Property and equipment is stated at cost. Depreciation of property and equipment is provided using straight-line method over the estimated useful lives of the respective assets ranging from 5 years for equipment to 40 years for buildings.

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

Other Assets

In December 2011, Citywide Property Holdings, LLC executed a purchase option agreement for a development site on Central Avenue. Under the terms of the agreement, Citywide paid $500,000 at the time of the execution that will be applied to the purchase price of the property. Citywide can exercise the option at any time within five years from the date of the option. In 2015, the term of the option agreement was extended for an additional two year period making the option expiration date December 28, 2018. This amount is included in other assets in the consolidated statements of net position at December 31, 2015 and 2014.

A building located at 174 North Pearl Street is vacant and as of December 31, 2015, a plan of reuse has not been developed. The building is included in other assets in the consolidated statements of net position at December 31, 2015 and 2014, and CAC does not record depreciation on this asset.

Description of Leasing Arrangements

CAC, as part of its mission, has entered into arrangements leasing various parcels of real estate. These arrangements include both operating and direct financing leases. The lease terms range from one to thirty years.

Use of Estimates

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

Income Taxes

CAC is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Citywide's annual tax information filings are included with the annual filings of its sole member, CAC.

Net Position

In order to present consolidated financial condition and consolidated operating results of CAC in a manner consistent with limitations and restrictions placed upon the use of resources, CAC classifies net Position into three categories as follows:

Net invested in capital assets – This component of net position consists of property and equipment, including property held for investment and lease, net of accumulated depreciation, and reduced by the outstanding balances of debt attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of net invested in capital assets. Rather, when applicable, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted – This component of net position consists of constraints placed on assets use through external constraints imposed by creditors, by law or regulation, or through enabling legislation.

Unrestricted – This component of net position consists of net position that does not meet the definition of "net invested in capital assets" or "restricted."

Reclassifications

Certain items in the prior year financial statements have been reclassified to conform to the current year presentation.

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

Subsequent Events

For purposes of preparing these financial statements, CAC considered events through March 21, 2016, the date the financial statements were available for issuance.

NOTE 2 — CASH AND CASH EQUIVALENTS

CAC maintains its cash in bank accounts with several financial institutions.

CAC has not experienced any losses with respect to its cash and cash equivalents balances. Based on management's review of the strength of the financial institutions, management feels the risk of loss on its cash balances is minimal.

At December 31, 2015, the carrying amount and the bank balances of CAC's deposits were approximately $4,742,000 and $4,764,000, respectively. Of the bank balances, approximately $1,155,000 was insured under FDIC coverage and approximately $2,042,000 was secured by bank pledged investment securities. Uncollateralized amounts approximated $1,567,000 at December 31, 2015, and were maintained with major financial institutions considered by management to be secure.

NOTE 3 — RESTRICTED CASH

Generally, restricted cash represents funds that have been placed in a segregated account that cannot be used for a purpose other than the purpose for which that account is designated. Restricted cash includes amounts restricted for the following purposes at December 31:

	2015	2014
CDBG eligible activities	$ 111,054	$ 107,414
EC/EDZ revolving loan fund	237,850	177,439
Debt service reserve	171,466	171,446
Hudson River Way campaign	59,235	59,229
Total restricted cash and cash equivalents	$ 579,605	$ 515,528

At December 31, 2015, bank balances of restricted cash were approximately $584,391, which were insured under FDIC coverage.

NOTE 4 — INVESTMENTS

Investments consist of the following at December 31:

	2015		2014	
	Cost	Fair Value	Cost	Fair Value
Corporate Debt Securities	$ 816,236	$ 808,311	$ 906,429	$ 901,557
Certificates of Deposit	2,127,360	2,127,310	1,970,182	1,967,938
Equities	309,190	399,966	295,565	443,536
Other	101,457	101,457	98,331	98,331
Total	$ 3,354,243	$ 3,437,044	$ 3,270,507	$ 3,411,362

NOTE 4 — INVESTMENTS (Continued)

Unrealized (losses) gains of approximately $(58,000) and $7,000 at December 31, 2015 and 2014, respectively, are included in other interest and investment income in the consolidated statements of revenue and expenses and changes in net position.

NOTE 5 — MORTGAGE NOTES RECEIVABLE, NET

CAC's mortgage notes receivable are comprised of 40 and 41 individual accounts at December 31, 2015 and 2014, respectively, with an average outstanding principal balance approximating $112,000 and $119,000, respectively.

Repayment terms and interest rates on mortgage loans vary with each loan. Generally, interest rates range from 0% to 9% per year, with the average yield on all loans approximating 5% for the years ended December 31, 2015 and 2014. Maturities range from 2016 through the year 2080.

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

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

	2015		2014	
	Number of Notes	Amount	Number of Notes	Amount
CDBG	2	$ 37,280	2	$ 40,452
UDAG	14	949,589	15	961,905
Other	24	3,504,006	24	3,889,241
	40	4,490,875	41	4,891,598
Less allowance for losses		(2,060,548)		(2,069,493)
Mortgage notes receivable, net		2,430,327		2,822,105
Less: Current portion		193,913		188,334
Noncurrent		$ 2,236,414		$ 2,633,771

Of the total mortgage receivable balance approximately $440,000 and $495,000 as of December 31, 2015 and 2014, respectively, is due from the Albany Community Development Agency (ACDA), a component unit of the City of Albany.

The recorded investment in mortgage notes receivable that are considered to be impaired approximated $2,224,000 and $2,357,000 at December 31, 2015 and 2014, respectively. The allowance for losses related to impaired loans approximated $2,061,000 and $2,069,000 at December 31, 2015 and 2014, respectively. Interest income recognized on impaired mortgage notes receivable, while such mortgage notes receivable were impaired, was approximately $2,000 and $3,500 for 2015 and 2014, respectively.

NOTE 6 — RECEIVABLES FROM THE CITY OF ALBANY AND CITY AGENCIES

There was a receivable from ACDA in the amount of approximately $100,000 and $101,000 related to reimbursable expenditures incurred under the CDBG program at December 31, 2015 and 2014, respectively.

NOTE 7 — PROPERTY HELD FOR INVESTMENT AND LEASE, NET

The following is a summary of changes in property held for investment and lease for the year ended December 31, 2015:

	January 1, 2015	Additions	Dispositions	Reclassification	Impairment	December 31, 2015
Riverfront Bar & Grill -						
Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-	-	-	25,000
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
	4,753,947	-	-	-	-	4,753,947
Less accumulated depreciation	2,182,256	175,483	-	-	-	2,357,739
	$ 2,571,691					$ 2,396,208

The following is a summary of changes in property held for investment and lease for the year ended December 31, 2014:

	January 1, 2014	Additions	Dispositions	Reclassification	Impairment	December 31, 2014
Riverfront Bar & Grill -						
Utilities Project	$ 43,800	$ -	$ -	$ -	$ -	$ 43,800
Quackenbush Square Parking Lot	146,864	-	-	-	-	146,864
677 Broadway	449,000	-	(449,000)	-	-	-
Quackenbush House	199,192	-	-	-	-	199,192
Palace Properties	25,000	-	-	-	-	25,000
245 Lark Street	165,437	-	(165,437)	-	-	-
Corning Preserve Project	4,114,091	-	-	-	-	4,114,091
Land at 11 Clinton Avenue	225,000	-	-	-	-	225,000
	5,368,384	-	(614,437)	-	-	4,753,947
Less accumulated depreciation	2,009,680	178,454	(5,878)	-	-	2,182,256
	$ 3,358,704					$ 2,571,691

NOTE 8 — PROPERTY AND EQUIPMENT, NET

The following is a summary of changes in property and equipment for the year ended December 31, 2015:

	January 1, 2015	Additions	Dispositions	December 31, 2015
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	465,411	2,249	-	467,660
Furniture and equipment	139,962	4,629	-	144,591
Total	654,673	6,878	-	661,551
Less accumulated depreciation	251,409	32,072	-	283,481
	$403,264	$ (25,194)	$ -	$ 378,070

The following is a summary of changes in property and equipment for the year ended December 31, 2014:

	January 1, 2014	Additions	Dispositions	December 31, 2014
Land	$ 49,300	$ -	$ -	$ 49,300
Building and improvements	460,806	4,605	-	465,411
Furniture and equipment	135,639	4,323	-	139,962
Total	645,745	8,928	-	654,673
Less accumulated depreciation	217,682	33,727	-	251,409
	$428,063	$ (24,799)	$ -	$ 403,264

Depreciation expense, including depreciation expense on property held for investment and lease, was approximately $208,000 and $212,000 for the years ended December 31, 2015 and 2014, respectively.

NOTE 9 — OPERATING LEASES

CAC leases the Quackenbush Square Parking Lot, Riverfront Bar & Grill, the Quackenbush House, and Corning Preserve Project, all classified as property held for investment and lease (see Note 7), to help accomplish its economic development goals.

The following is a schedule by year of the minimum future rentals to be received on non-cancellable operating leases as of December 31, 2015:

2016	$ 271,507
2017	247,397
2018	233,423
2019	238,331
2020	249,238
Thereafter	948,242
	$2,188,138

NOTE 9 — OPERATING LEASES (Continued)

CAC leases the Corning Preserve Project to the Albany Port District Commission (the "Port"), a component unit of the City, under a shared use and lease agreement (see Note 15). The shared use and sublease agreement has a thirty year term expiring in 2032. Under the shared use and lease agreement the Port is obligated to make lease payments sufficient to cover all related bond debt service and certain other expenses. The annual rent payments due from the Port will change on a year to year basis as a result of the variable interest rate associated with the bonds, the amortization schedule of the bonds and bond prepayments. CAC is recognizing the base rental income on a straight-line basis (approximately $148,000 per year) over the life of the lease based on the lease factors at inception of the lease. For each of the years ended December 31, 2015 and 2014, rental income approximated $148,000. Increases or decreases to the base rental income result from changes in lease factors occurring subsequent to the inception of the lease and are recognized as contingent rentals in the period that the changes take place.

NOTE 10 — NET INVESTMENT IN DIRECT FINANCING LEASES

The following lists the components of the net investment in direct financing leases as of December 31:

	2015	2014
Total minimum lease payments to be received	$ 608,109	$ 823,697
Less: amounts representing executory costs (such as insurance) included in total minimum lease payments	-	-
Net minimum lease payments receivable	608,109	823,697
Less: unearned income	(87,119)	(152,176)
Net investment in direct financing leases	520,990	671,521
Less: current portion	159,175	149,937
Noncurrent	$ 361,815	$ 521,584

Minimum future lease payments to be received, as of December 31, 2015, for the remaining lease terms, are as follows:

2016	$ 206,818
2017	203,072
2018	198,219
Total minimum lease payments to be received	$ 608,109

Net investment in direct financing leases is comprised primarily of the following leases with related parties:

A lease with ACDA, related to a facility located at 200 Henry Johnson Boulevard. In addition, a master lease agreement with the City guarantees the required lease payments of ACDA. The lease with ACDA required an up-front payment of $300,000 and variable semi-annual payments over the remaining lease term (payments approximate $190,000 annually). Portions of the payments are utilized by CAC to fund their debt service obligation for the related bonds payable (see Note 12). The lease has a twenty-five year term and expires in March 2018. The net investment in the lease approximated $488,000 and $619,000 as of December 31, 2015 and 2014, respectively. Income earned during 2015 and 2014 approximated $55,000 and $70,000, respectively.

NOTE 10 — NET INVESTMENT IN DIRECT FINANCING LEASES (Continued)

A lease with the Port, related to a warehouse facility. In 2004, the lease with the Port was amended to reflect CAC's refinancing related bonds payable (see Note 12). The lease amendment with the Port required monthly payments of $8,718 which was equivalent to CAC's debt service obligation for related bonds payable (see Note 12). The lease expired in November 2014. Income earned during 2014 approximated $30,000.

A lease with the City, related to the Albany Police Department's North Station, requiring annual payments of $22,088. The lease has a twenty year term and expires in July 2018. The net investment in the lease approximated $33,000 and $53,000 as of December 31, 2015 and 2014, respectively. Income earned during 2015 and 2014 approximated $2,000 and $3,000, respectively.

NOTE 11 — DUE TO THE CITY OF ALBANY

Due to the City of Albany consists of the following at December 31:

	2015	2014
Professional services fee payable	$ 13,371	$ 40,000
Hudson River Way project	59,521	59,521
	$ 72,892	$ 99,521

During 2012, CAC entered into a professional services agreement with the City of Albany. Under this agreement the City of Albany provides economic development, planning, and community development consultancy services in furtherance of CAC's mission. The fee under the agreement is determined annually. CAC's fee to the City of Albany under this agreement totaled approximately $53,000 and $160,000 for each of the years ended December 31, 2015 and 2014, respectively. The agreement carried a one-year term with automatic consecutive one-year renewals, unless terminated by either party, until 2014, when this agreement was replaced with a new five-year term agreement with the City of Albany effective for 2015.

NOTE 12 — BONDS PAYABLE

The following is a summary of changes in bonds payable for the year ended December 31, 2015:

	January 1, 2015	Increases	Decreases	December 31, 2015
Bonds Payable:				
AIDA Henry Johnson Boulevard Project (B)	$ 590,000	$ -	$ (135,000)	$ 455,000
AIDA Corning Preserve Project (C)	2,060,000	-	(165,000)	1,895,000
	2,650,000	-	(300,000)	2,350,000
Less current maturities	300,000			320,000
	$ 2,350,000			$ 2,030,000

NOTE 12 — BONDS PAYABLE (Continued)

The following is a summary of changes in bonds payable for the year ended December 31, 2014:

	January 1, 2014	Increases	Decreases	December 31, 2014
Bonds Payable:				
AIDA Port Warehouse Project (A)	$ 928,590	$ -	$ (928,590)	$ -
AIDA Henry Johnson Boulevard Project (B)	720,000	-	(130,000)	590,000
AIDA Corning Preserve Project (C)	2,220,000	-	(160,000)	2,060,000
	3,868,590	-	(1,218,590)	2,650,000
Less current maturities	1,218,590			300,000
	$ 2,650,000			$ 2,350,000

(A) CAC functioned as the conduit agency in connection with a 1994 bond issue of the Albany Industrial Development Agency (AIDA), a component unit of the City, in the amount of $1,675,000. The net proceeds were utilized to fund a project to construct a building for the Port. The transaction has been recorded at the amount of debt assumed under the bond issue. The building is leased to the Port under a related lease agreement that has been classified as a direct financing lease (see Note 10). In 2004, the 1994 bond was refinanced through the issuance of a 2004A bond of the AIDA in the amount of $1,430,000. The 2004A bond required monthly payments of principal and interest in the amount of $8,718, with interest at a rate of 4.07% per annum. Accordingly, the lease with the Port was amended in 2004 (see Note 10). The bond matured in November 2014.

(B) CAC functioned as the conduit agency in connection with a 1994 bond issue of the AIDA in the amount of $1,975,000. The net proceeds were utilized to fund a project to construct a building for the City and City Agencies. The transaction has been recorded at the amount of debt assumed under the bond issue. The bonds require semi-annual payment of interest and the interest rate is adjusted every five years. Principal payments are required annually on March 1 in prescribed amounts currently ranging from $120,000 to $160,000. The obligation matures in March 2018. The interest rate at December 31, 2015 was 5.75%. The building is leased to ACDA under a related lease agreement that has been classified as a direct financing lease (see Note 10).

(C) CAC functioned as the conduit agency in connection with a 2002 Civic Facility Revenue bond issue of the AIDA in the amount of $4,390,000. The proceeds were utilized to fund a project that includes the construction of various improvements to the Corning Preserve Park. The obligation requires monthly payment of interest and the interest rate is adjusted weekly. The bonds are secured by a letter of credit issued by Key Bank. The letter of credit requires principal payments on the outstanding bonds, annually on May 1, in prescribed amounts currently ranging from $155,000 to $255,000. The letter of credit also requires principal payments on the outstanding bonds if certain grant proceeds related to the Corning Preserve Project are received. The bonds mature in May 2027. The interest rate at December 31, 2015 was 0.1%. The Corning Preserve Project is leased to the Port under a related agreement that has been classified as an operating lease (see Note 9).

NOTE 12 — BONDS PAYABLE (Continued)

At December 31, 2015, principal and interest requirements to maturity are as follows:

	Principal	Interest
2016	$ 320,000	$ 23,850
2017	330,000	15,184
2018	350,000	6,079
2019	200,000	1,277
2020	210,000	1,063
2021 - 2025	940,000	1,927
	$ 2,350,000	$ 49,380

NOTE 13 — REVOLVING LOAN FUND LIABILITY

In June 1999, CAC was awarded a grant of $643,291 to establish and operate a revolving loan fund to benefit prospective or existing Enterprise Community and/or Economic Development Zone (EC/EDZ) businesses. Generally, repayments on loans originated are to be recycled back into the loan fund to provide additional loans. However, with approval from the Empire State Development Corporation ("ESDC"), interest generated from the loans can be recorded as revenue to the extent that it offsets administrative expenses related to operating the loan fund. Approximately $28,000 and $30,000 of such revenue was recognized for the years ended December 31, 2015 and 2014, respectively.

NOTE 14 — RETIREMENT PLAN

Simplified Employee Pension Plan (SEP-IRA)

Plan Description: Simplified Employee Pension Plan is an employer-funded retirement plan with 100% immediate vesting. Maximum employee limit is 25% of gross compensation not to exceed $53,000. Distributions taken prior to age 59 ½ may be subject to 10% premature penalty tax in addition to ordinary income tax. The Plan must be adopted and funded by employer's tax filing deadline, plus extensions, for prior year deductibility.

Funding Requirements: CAC has elected to contribute 11% of an eligible employee's compensation annually to the SEP-IRA. During 2015 and 2014, six and nine employees were covered by the SEP-IRA, and total contributions were approximately $50,000 and $73,000, respectively.

Post Employment Benefit

CAC does not offer post employment benefit to its employees.

NOTE 15 — CORNING PRESERVE PROJECT

CAC, in 2002, functioned as the conduit agency with several related parties related to a project to construct various improvements to a portion of the Corning Preserve Park (Corning Preserve Project). CAC entered into an interim use and ground lease agreement with the City providing for a ground lease of the property owned by the City, underlying the Corning Preserve Project. The interim use and ground lease agreement has a thirty-five year term and provides for a nominal rent payment. At the end of the lease term the Corning Preserve Project reverts to the City.

CAC entered into a lease agreement with the AIDA to sublease the property to the AIDA. The sublease expires at the earlier of a date requested by CAC or the completion date of the Corning Preserve Project. The lease agreement provides for a nominal payment. CAC also entered into an installment sale agreement with the AIDA pursuant to which CAC is obligated, among other things, to complete the Corning Preserve Project as the agent of the AIDA and the AIDA sells the Corning Preserve Project to CAC on an installment basis. CAC's payments under the installment sale agreement are equivalent to the debt service requirements on the $4,390,000 in 2002 Civic Facility Revenue Bonds issued by the AIDA to fund the Corning Preserve Project, which is accounted for as bonds payable (see Note 12).

CAC entered into a shared use and sublease agreement with the Port. Under the shared use and sublease agreement the Port is obligated to perform on behalf of CAC, CAC's obligations under the interim use and ground lease agreement and the installment sale agreement. Also under the shared use and sublease agreement, which is accounted for as an operating lease, the Port is obligated to fund CAC's obligations relating to the Corning Preserve Project, including funding payments sufficient to cover all related bond debt service and certain other expenses (see Note 9).

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

To the Board of Directors
Capitalize Albany Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Capitalize Albany Corporation, which comprise the consolidated statement of net position as of December 31, 2015, and the related consolidated statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 21, 2016.

Internal Control Over Financial Reporting

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

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

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

UHY LLP Certified Public Accountants

Compliance and Other Matters

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

Purpose of this Report

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

UHY LLP

Albany, New York
March 21, 2016