# ALBANY COMMUNITY DEVELOPMENT AGENCY

**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2012 and 2011

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**

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UHY LLP
Certified Public Accountants

# INDEPENDENT AUDITOR'S REPORT

Board of Directors
Albany Community Development Agency

## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Albany Community Development Agency (Agency), a blended component unit of the City of Albany as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Agency'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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

UHY LLP
Certified Public Accountants

***Report on Summarized Comparative Information***

We have previously audited the Agency's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 15, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***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 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 the 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 Agency's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
September 10, 2013

This management discussion and analysis is offered to assist readers in understanding the financial operations of Albany Community Development Agency ("ACDA") in conjunction with the financial statements for the year ended December 31, 2012. This Discussion and Analysis will provide comparative analysis of data between 2012 and 2011.

**Introduction:**

ACDA is a public benefit corporation, and is governed by a board of directors as established under General Municipal Law. ACDA is a blended component unit of the City of Albany. ACDA utilizes City of Albany employees to execute its mission. ACDA's mission is to provide suitable living environments and economic opportunities for low to moderate income residents within the City of Albany.

Funds used by ACDA are primarily from the U.S. Department of Housing and Urban Development ("HUD"). The primary source of HUD funds are entitlement funds, which represent approximately 66% and 59% of grant revenue for 2012 and 2011, respectively. In 2011, HUD monies from competitive lead abatement grant funds represented 16% of grant revenue and continued to be a significant source of grant revenue during 2012 at 7%, although the lead grant ended in May 2012. The other major source of revenue comes through Federal flow-through monies that were received through NYS Homes & Community Renewal ("NYSHCR") for the Neighborhood Stabilization Program ("NSP") and represented 24% and 17% of grant revenue for 2012 and 2011, respectively. Other smaller sources of revenue are funded through Federal and some non-Federal sources.

ACDA provides direct assistance to meet the goals stated above and also provides funding to sub-recipients based on the merit of their applications, to meet the objectives as well. ACDA operates based on HUD's National Program Objectives. Funding decisions are determined through a process which involves public participation. Included in this process is the submittal of a publicly reviewed Consolidated Plan every 5 years that states broad goals and objectives. ACDA's current Consolidated Plan is through 2015.

Each year an Annual Plan, also subject to public review and comment, is developed and adopted as based on the Consolidated Plan. Any significant changes are required to go through a public review and amendment process.

**Financial Highlights:**

- ACDA's financial statements are prepared on a calendar year basis, whereas the Federal Aid awards (known as entitlements) that are the primary sources of revenue are provided on a program year of June 1 to May 31.
- ACDA's primary entitlements of Community Development Block Grant ("CDBG") and HOME Investment Partnership Program ("HOME) have been decreasing and continued to do so during 2012. After a 16.5% decrease for CDBG program year ended May 31, 2012, CDBG funding was decreased by 10.8% for the year ended May 31, 2013. HOME sustained an 11.3% decrease for the year ended May 31, 2012 and an additional 37.6% decrease for the year ended May 31, 2013.
- After remaining quite stable for several program years, funding for the Emergency Solutions Grant was increased by approximately $128,000, a 78% increase, for the program year ended May 31, 2013. Also, ACDA was awarded additional funds of approximately $91,000 for the program year ended May 31, 2012.
- Housing Opportunities for Persons with AIDS ("HOPWA") funding remained stable between the program years.
- Federal Economic Recovery Funds (Community Development Block Grant ARRA Entitlement Grants ("CDBG-R") and Homeless Prevention and Rapid Re-housing Program ("HPRP")) that represented a significant source of 2011 revenue had little impact in 2012 as the stimulus programs ended in early 2012.

- During 2012 close to $1.6 million was spent on the Arbor Hill Apartments rental project that began in 2010. The project was funded primarily by the $4.9 million of Neighborhood Stabilization Program ("NSP") funds ACDA was awarded in 2009.
- During 2011 ACDA received an extension to continue work on the Lead grant through May 31, 2012, as savings were achieved on the originally agreed upon number of lead units abated. As a result, an additional 30 units of lead safe housing were completed.
- Expenditures trend with the revenues to which they relate. Items to highlight between 2011 and 2012 are as follows:
    - The lead grant being active for only five months in 2012 lead to a 70% decrease in lead spending during 2012 as compared to 2011.
    - As tied to the entitlement decreases noted above, expenditures for housing related programs funded from Entitlement and Economic Recovery sources were about 41% less in 2012 than in 2011.
    - Public service expenditures decreased by approximately 28%. $250,000 of the decrease relates to ACDA having funded the City Summer Youth program only for 2011.
    - In 2011 $250,000 was provided to the Christian Plumeri Sports Complex project. As this did not recur in 2012, public facilities expenditures decreased 98%.
    - During 2012 $300,000 of ACDA expenditures were incurred as work began on an economic development project for 526 Central Avenue that represents a collaboration of funding from ACDA and the City of Albany with coordination by Capitalize Albany Corporation. The building was in severe disrepair and is located in a disadvantaged area of the City.
    - As a result of reductions in Entitlement revenue and the ending of the Lead and Economic Recovery grants, ACDA reduced staff in 2012 after having had some limited reductions in 2011. For the program year beginning June 1, 2012, personnel and fringe benefit cost reductions will yield about $250,000 of savings over the prior program year. This reduction is achieved during a time when fringe benefit costs continue to rise significantly for items such as retirement costs and health insurance.
    - Homeless expenditures decreased 61% mainly due to the HPRP program, which was part of the Economic Recovery stimulus funding, ending in 2011.
- In December 2011, ACDA purchased a building at 25 Delaware Avenue for $517,000 with funds borrowed from Capitalize Albany Corporation. The building, located in a disadvantaged area of the City of Albany, will be sold to a developer for rehabilitation and re-use.

**Overview of the Financial Statements:**

This Discussion and Analysis is provided as an introduction to the basic Financial Statements. The basic Financial Statements consist of statements of net position, statements of activities, balance sheets – governmental funds, statements of revenues, expenditures and changes in fund balance – governmental funds, and notes to financial statements. During 2012 ACDA implemented GASB 63 which requires information pertaining to deferred outflows or inflows of resources and essentially changes the title of what was formerly known as "net assets" to "net position". As of December 31, 2012 and 2011, ACDA has no deferred outflows or inflows of resources that are required to be reported.

Net position increases when revenues exceed expenditures and decreases when expenditures exceed revenues. ACDA has no objective to accumulate profits, however, due to timing differences related primarily to the receipt of program income or non-Federal revenue receipts and expenditures, net position can fluctuate. For Federal funds, ACDA adheres to Federal guidelines with respect to only having access to funds when valid incurrence of expenditures has taken place and whereby funds drawn from funding sources must be disbursed timely.

As noted previously, the primary sources of funds that come to ACDA must be spent to meet the National Objectives for the related programs. There are different spending rules for each funding source (i.e. CDBG versus HOME), and each potential expenditure is evaluated based on its meeting the objectives and as to its fit with the ACDA Consolidated and Annual plans. Other sources of funding also have their own rules which ACDA follows and all sources of funding assist with the overall mission of the Agency.

Administration includes functions such as accounting, clerical functions, overall operational management, and budgeting. HUD institutes maximum percentage caps for administrative expenses by type of funding that range from 4.5% on HESG monies to 20% for CDBG monies. For 2011 and 2012 ACDA administrative costs were within the HUD requirements.

It is important for a reader of ACDA's financial statements to read the Statements themselves, the notes to the Statements, and this Discussion and Analysis in order to have a full understanding of ACDA's financial condition.

**Condensed Financial Information:**

The following condensed financial information summarizes ACDA's net position at December 31, 2012 and 2011 and revenues and expenses for the years then ended:

| | 2012 | 2011 |
|---|---|---|
| Current and Other Assets | $ 3,097,000 | $ 3,767,000 |
| Mortgage Loans Receivable, Net | 10,775,000 | 11,251,000 |
| Capital Assets | 2,287,000 | 2,384,000 |
| Total Assets | $ 16,159,000 | $ 17,402,000 |
| Deferred Outflows of Resources | $ - | $ - |
| Current Liabilities | $ 1,366,000 | $ 2,030,000 |
| Deferred Revenues | 10,099,000 | 10,399,000 |
| Due to NYS Housing Trust Fund | 419,000 | 531,000 |
| Other Liabilities | 1,751,000 | 1,971,000 |
| Total Liabilities | $ 13,635,000 | $ 14,931,000 |
| Deferred Inflows of Resources | $ - | $ - |
| Net Position | $ 2,524,000 | $ 2,471,000 |
| Grant Revenue | $ 7,135,000 | $ 10,667,000 |
| Expenses: | | |
| Program Related | 6,485,000 | 9,856,000 |
| Administrative | 597,000 | 792,000 |
| Total Governmental Activities | 53,000 | 19,000 |
| Other Revenue (Expense): | | |
| Interest and Other Income | - | - |
| Change in Net Position | 53,000 | 19,000 |
| Net Position, Beginning of Year | 2,471,000 | 2,452,000 |
| Net Position, End of Year | $ 2,524,000 | $ 2,471,000 |

**Financial Analysis**

ACDA's most significant asset is mortgage loans receivable. Mortgage loans receivable primarily represent the amounts outstanding in mortgages that encourage homeownership and rehabilitation of housing for low to moderate income individuals. Approximately $5.1 million of the loans are in the form of grants and deferred pro-rated loans where upon meeting certain conditions, such as length of ownership or occupancy and income levels, the loans are forgiven ratably over time. When an ability to repay the loan exists, traditional type loans are established. The Choose Albany Program started during 2011 with maximum available funding of $300,000 of which $245,000 was outstanding at December 31, 2012. This program consists of low to no interest loans targeted to potential City of Albany home-buyers to increase home ownership and diversity within the City.

Allowances for doubtful loans are determined based on a review of delinquent loans and estimates of loans anticipated to go out of compliance. With respect to the deferred (forgiven) loans, in the event of non-compliance a pro-rated portion of the loan is to be repaid to ACDA. In the event of default on a repayable loan, the remaining balance on the loan becomes immediately due.

ACDA's most significant liability is unearned revenue. Unearned revenue consists almost entirely of outstanding loans outlined above.

An overview of the mortgage programs are arrayed in the table below:

| Type of Assistance | Information about the Terms |
|---|---|
| Home Owner Assistance Program (HOAP) | Assists low-income owner occupants in rehabilitating their homes to meet local housing standards and codes. Maximum assistance is $25,000 per building in the form of a 5 to 20 year mortgage with a 2% interest rate or, if the ability to repay does not exist, it may be deferred and forgiven ratably over a 10 year time period. |
| Homebuyer and Rehabilitation Assistance Program (HRAP) | Decreases the barriers to homeownership for low-income households for those who currently do not own a home and desire to purchase and rehabilitate a 1 to 4 unit building, condominium or cooperative unit. Minimum assistance is $1,000 and maximum assistance is $14,900 for the acquisition and $25,000 for the rehabilitation. |
| Neighborhood Strategy Area Home Improvement Program (NSAHIP) | As awarded through the NYS Affordable Housing Corporation, funding assists with the acquisition, construction, rehabilitation, or improvement of 1 to 4 unit family dwellings with one unit being owner occupied. |
| Senior Housing Rehabilitation Program (SRP) | Provides low-to-moderate income persons over the age of 62 owning homes in the City of Albany up to $5,000 for substantial repairs to housing. Assistance is in the form of a deferred grant to be forgiven over a 5 year period unless the occupant must vacate the property to reside in a nursing home or becomes deceased, in which case the grant is immediately forgiven. |
| Choose Albany | Encourages diverse home ownership within the City of Albany. Maximum assistance is 8% of the purchase price up to $15,000. Loans are repayable at 0% interest over 10 years and are subject to certain conditions. |

Fixed assets consist primarily of land and buildings. Included in land and buildings are condominium units used to provide temporary housing for income eligible household. Properties are retained in order to reclaim substandard neighborhoods and discourage the use of vacant sites for negative activities.

Due to or from Federal government represents the amount the Federal government would owe ACDA for expenditures incurred but not yet reimbursed by entitlement grants or the amount ACDA would owe back in the event monies received exceed expenditures.

Program income is income generated outside the entitlement monies which can then be utilized to further the mission of ACDA. The primary sources of program income consist of repayments of mortgage loans and reimbursements earned on demolitions.

ACDA's entitlement program budgets are approved by the City of Albany Common Council. ACDA practices zero-based budgeting whereby expected income is fully budgeted for expenditure. Typically approximately 80% of expenditures are for program and project related purposes. Significant changes to individual expenditure line items during 2012 and 2011 were included in the Financial Highlights section.

**Budget Basis of Accounting**

Budgetary controls for the Agency are established in accordance with the Housing and Urban Development program years which cover periods other than the Agency fiscal year. Consequently, no Statement of Budgeted and Actual Revenues, Expenditures, and Changes in Fund Equity is presented in these financial statements.

**Capital Asset Activity and Long-term Debt Activity**

ACDA did not have significant changes to capital assets or incur long-term debt during 2012. In December 2011 ACDA borrowed $500,000 to finance the purchase of 25 Delaware Avenue. That purchase represented the primary change to capital assets during 2011.

**Currently Known Facts, Decisions, and Conditions**

The HUD entitlements for Program Year 39 (June 1, 2013 – May 31, 2014) will be:

- $3,212,719 for CDBG
- $762,313 for HOME
- $218,274 for ESG
- $470,954 for HOPWA

The entitlement for Year 39 represents an approximate 7% increase for CDBG and decreases of 25% for ESG and 7% for HOPWA. Home entitlement remains consistent with Year 38.

Beginning with Program Year 39, HUD funding will be awarded directly to the City of Albany whereby ACDA will then be contracted by the City to administer the funds. No changes to the HUD rules or guidelines with respect to the use of Entitlement monies will take place.

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**
**STATEMENTS OF NET POSITION**
**December 31, 2012**

| | 2012 | 2011 (For Comparative Purposes Only) |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | **$ 1,126,396** | $ 1,020,159 |
| Restricted cash | **106,157** | 105,944 |
| Mortgage loans receivable, net of allowance for loan losses of $2,279,032 in 2012 and $2,145,784 in 2011 | **10,775,067** | 11,251,392 |
| Due from federal government | **1,051,193** | 1,193,627 |
| Due from the City of Albany | **247,037** | 585,255 |
| Capital assets, net of depreciation | **2,287,550** | 2,383,808 |
| Other assets | **566,239** | 861,846 |
| Total assets | **$ 16,159,639** | $ 17,402,031 |
| **DEFERRED OUTFLOWS OF RESOURCES** | **$ -** | $ - |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities | **$ 1,091,883** | $ 1,592,302 |
| Long-term obligations | **1,731,064** | 1,938,522 |
| Unearned revenues | **10,099,196** | 10,398,614 |
| Due to New York State Housing Trust Fund | **419,035** | 530,927 |
| Due to federal government | **-** | 59,731 |
| Due to the City of Albany | **273,910** | 377,816 |
| Other liabilities | **20,103** | 33,017 |
| Total liabilities | **$ 13,635,191** | $ 14,930,929 |
| **DEFERRED INFLOWS OF RESOURCES** | **$ -** | $ - |
| **NET POSITION** | | |
| Net invested in capital assets | **$ 1,180,464** | $ 1,133,485 |
| Unrestricted | **1,343,984** | 1,337,617 |
| Total net position | **$ 2,524,448** | $ 2,471,102 |

*See notes to financial statements.*

# ALBANY COMMUNITY DEVELOPMENT AGENCY
## (A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)
## STATEMENTS OF ACTIVITIES
## For the Year Ended December 31, 2012

| | Governmental Activities | | | | 2011 |
|---|---|---|---|---|---|
| | | Program Revenues | | | (For |
| | | Charges for | Operating | | Comparative |
| | Expenses | Services | Grants | 2012 | Purposes Only) |
| Lead paint abatement | $ 470,817 | $ - | $ 470,817 | **$ -** | $ - |
| Housing | 3,154,772 | - | - | **(3,154,772)** | (4,808,205) |
| Public service | 452,787 | - | - | **(452,787)** | (631,404) |
| Public service - neighborhood revitalization | 27,733 | - | - | **(27,733)** | (35,069) |
| Housing direct delivery | 1,027,185 | - | - | **(1,027,185)** | (1,092,882) |
| Economic development | 603,016 | - | - | **(603,016)** | (239,111) |
| Homeless | 238,503 | - | - | **(238,503)** | (611,760) |
| Public facilities | 5,634 | - | - | **(5,634)** | (263,759) |
| Public improvements | 156,260 | - | - | **(156,260)** | (173,620) |
| Administration | 597,198 | - | - | **(597,198)** | (792,237) |
| Environmental restoration | 165,067 | - | - | **(165,067)** | (258,597) |
| Interest expense | 96,842 | - | - | **(96,842)** | (75,918) |
| Depreciation | 86,508 | - | - | **(86,508)** | (96,709) |
| | $ 7,082,322 | $ - | $ 470,817 | **$ (6,611,505)** | $ (9,079,271) |
| General revenues: | | | | | |
| Grants and entitlements not restricted to specific programs | | | | **$ 6,664,632** | $ 9,097,774 |
| Interest income | | | | **219** | 274 |
| Total general revenues | | | | **6,664,851** | 9,098,048 |
| Excess of revenues over expenses | | | | **53,346** | 18,777 |
| Net position - beginning | | | | **2,471,102** | 2,452,325 |
| Net position - ending | | | | **$ 2,524,448** | $ 2,471,102 |

*See notes to financial statements.*

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**
**BALANCE SHEETS - GOVERNMENTAL FUNDS**
**December 31, 2012**

| | General Fund | Special Revenue Fund | Total Governmental Funds 2012 | Total Governmental Funds 2011 (For Comparative Purposes Only) |
|---|---|---|---|---|
| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| **ASSETS** | | | | |
| Cash and cash equivalents | $ 1,088,360 | $ 38,036 | **$ 1,126,396** | $ 1,020,159 |
| Restricted cash | - | 106,157 | **106,157** | 105,944 |
| Mortgage loans receivable, net of allowance for loan losses of $2,279,032 in 2012 and $2,145,784 in 2011 | 10,320,655 | 454,412 | **10,775,067** | 11,251,392 |
| Due from federal government | 1,051,193 | - | **1,051,193** | 1,193,627 |
| Due from the City of Albany | 247,037 | - | **247,037** | 585,255 |
| Other assets | 49,076 | - | **49,076** | 344,683 |
| Total assets | 12,756,321 | 598,605 | **13,354,926** | 14,501,060 |
| **DEFERRED OUTFLOWS OF RESOURCES** | - | - | **-** | - |
| Total assets plus deferred outflows of resources | $ 12,756,321 | $ 598,605 | **$ 13,354,926** | $ 14,501,060 |
| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES** | | | | |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities | $ 1,045,996 | $ - | **$ 1,045,996** | $ 1,536,789 |
| Unearned revenues | 10,099,196 | - | **10,099,196** | 10,398,614 |
| Due to the City of Albany | 273,910 | - | **273,910** | 377,816 |
| Due to federal government | - | - | **-** | 59,731 |
| Other liabilities | 20,103 | - | **20,103** | 33,017 |
| Due to New York State Housing Trust Fund | - | 419,035 | **419,035** | 530,927 |
| Total liabilities | 11,439,205 | 419,035 | **11,858,240** | 12,936,894 |
| **DEFERRED INFLOWS OF RESOURCES** | - | - | **-** | - |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaids (included in other assets) | 2,975 | - | **2,975** | 8,210 |
| Restricted for: | | | | |
| Downpayment Assistance Program | - | 106,157 | **106,157** | 105,944 |
| Committed for: | | | | |
| Choose Albany Program | 300,000 | | **300,000** | 300,000 |
| NSP Program | 250,000 | | **250,000** | 250,000 |
| Assigned for: | | | | |
| Other purposes | - | 73,413 | **73,413** | 105,728 |
| Unassigned | 764,141 | - | **764,141** | 794,284 |
| Total fund balances | 1,317,116 | 179,570 | **1,496,686** | 1,564,166 |
| Total liabilities, deferred inflows of resources and fund balances | $ 12,756,321 | $ 598,605 | | |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | **2,287,550** | 2,383,808 |
| Other assets used in governmental activities that are not financial resources and, therefore, are not reported in the funds. | | | **517,163** | 517,163 |
| Non-current liabilities are not due and payable currently and, therefore, are not reported in the funds. | | | **(45,887)** | (55,513) |
| Long-term obligations are not due and payable currently and, therefore, are not reported in the funds. | | | **(1,731,064)** | (1,938,522) |
| Net position of governmental activities | | | **$ 2,524,448** | $ 2,471,102 |

*See notes to financial statements.*

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS**
**For the Year Ended December 31, 2012**

| | General Fund | Special Revenue Fund | Total Governmental Funds 2012 | Total Governmental Funds 2011 (For Comparative Purposes Only) |
|---|---|---|---|---|
| REVENUES | | | | |
| Grant income | $ 6,689,702 | $ - | **$ 6,689,702** | $ 9,639,912 |
| Program income | 419,905 | 219 | **420,124** | 820,973 |
| Other | 29,842 | - | **29,842** | 292,609 |
| Total revenues | 7,139,449 | 219 | **7,139,668** | 10,753,494 |
| EXPENDITURES | | | | |
| Grant programs: | | | | |
| Lead Paint Abatement Program | 470,817 | - | **470,817** | 1,568,352 |
| Housing | 3,154,772 | - | **3,154,772** | 5,308,205 |
| Public service | 452,787 | - | **452,787** | 631,404 |
| Public service - neighborhood revitalization | 27,733 | - | **27,733** | 35,069 |
| Housing direct delivery | 1,027,185 | - | **1,027,185** | 1,092,882 |
| Economic development | 603,016 | - | **603,016** | 239,111 |
| Homeless | 238,503 | - | **238,503** | 611,760 |
| Public facilities | 5,634 | - | **5,634** | 263,759 |
| Public improvements | 156,260 | | **156,260** | 173,620 |
| Environmental restoration | 165,067 | - | **165,067** | 258,597 |
| Debt service | 271,979 | 32,321 | **304,300** | 263,278 |
| Administration | 601,074 | - | **601,074** | 746,933 |
| Total expenditures | 7,174,827 | 32,321 | **7,207,148** | 11,192,970 |
| Excess of expenditures over revenues | (35,378) | (32,102) | **(67,480)** | (439,476) |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from issuance of long-term debt | - | - | **-** | 500,000 |
| Transfer between funds | - | - | **-** | - |
| Net change in fund balance | (35,378) | (32,102) | **(67,480)** | 60,524 |
| Beginning fund balance | 1,352,494 | 211,672 | **1,564,166** | 1,503,642 |
| Ending fund balance | $ 1,317,116 | $ 179,570 | **$ 1,496,686** | $ 1,564,166 |

Reconciliation of the change in fund balances - total governmental funds to the change in net position of governmental activities:

| | 2012 | 2011 |
|---|---|---|
| Net change in fund balances - total governmental funds | **$ (67,480)** | $ 60,524 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. | | |
| Depreciation expense | **(86,508)** | (81,521) |
| Governmental funds report proceeds received from sale of assets as revenue | **(4,000)** | (87,094) |
| Governmental funds do not report gains (losses) on disposal of other assets | **(5,750)** | (76,031) |
| Governmental funds report certain capitalized other assets as expenditures. | **-** | 517,162 |
| Governmental funds do not report non-current liabilities | **9,626** | (1,623) |
| The issuance of long-term debt (e.g. notes, bonds) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. | | |
| Issuance of long-term debt | **-** | (500,000) |
| Principal payments on long-term debt | **207,458** | 187,360 |
| Change in net position of governmental activities | **$ 53,346** | $ 18,777 |

*See notes to financial statements.*

## NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *Description of Organization*

The Albany Community Development Agency (Agency) is a Public Benefit corporation established by the City of Albany (City, Albany) and governed by a board of directors as established under General Municipal Law. The City also participates in the fiscal management of the Agency. Because the City has the ability to significantly influence Agency operations, the Agency is deemed to be a blended component unit of the City. Accordingly, the Agency is included as part of the City's financial reporting entity. The objectives of the Agency are to provide a suitable living environment and to expand economic opportunities for persons of low and moderate income. In 1974, the Agency (previously known as the Urban Renewal Agency) was designated by the City to undertake a community development program on behalf of the City and to administer the federal community development block grant program.

When created, the Agency was established as a New York State Public Authority and as such is subject to the applicable provisions of the New York State Public Authority Accountability Act.

### *Basis of Presentation*

For financial reporting purposes, the Agency follows the provisions of Governmental Accounting Standards Board (GASB) Statements. It requires classification of net position into three components – net invested in capital assets; restricted; and unrestricted. These classifications are defined as follows:

> Net invested in capital assets – This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition of these assets reduce this category.
>
> Unrestricted – This category represents the net position of the Agency, which is not restricted for any project or other purpose.
>
> Restricted – This category represents funds restricted by the funding source or law. The Agency has no restricted net position at December 31, 2012.

### *Summarized Comparative Information*

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

### *Government-Wide Statements*

The Agency's basic financial statements include both government-wide (reporting the Agency as a whole) and fund financial statements (reporting the Agency's major funds).

In the government-wide Statement of Net Position, governmental activities are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Agency's net position is reported in two parts – net invested in capital assets and unrestricted net position.

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Government-Wide Statements*** *(Continued)*

The government-wide Statement of Activities reports both the gross and net cost of each of the Agency's functions, which are supported by general government revenues. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and general operating grants.

This government-wide focus is more on the sustainability of the Agency as an entity and the change in the Agency's net position resulting from the current year's activities.

***Fund Financial Statements***

The financial transactions of the Agency are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures. The various funds are reported by generic classification within the financial statements.

The Agency uses Governmental Funds to report its activities in the financial statements. The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds used by the Agency:

General Fund: The General Fund is the general operating fund of the Agency. It is used to account for all financial resources except those required to be accounted for in another fund. Activities include funds received from the U.S. Department of Housing and Urban Development (HUD) under the Community Block Grant Program (CDBG), the Rental Housing Rehabilitation Program, the HOME Investment Program, the Housing for Persons with Aids Program, Lead Paint Abatement Program and Emergency Shelter Grant Programs.

Special Revenue Fund: The Special Revenue Fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The majority of activities in this fund are related to grant proceeds from the New York State Housing Trust Fund Corporation (NYSHTFC).

***Basis of Accounting***

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual: The government-wide financials are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual: The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Due to the nature of the Agency's operations, there are no significant differences between the accrual basis and the modified accrual basis of accounting, except for the expensing of capital assets and debt principal payments.

**NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

***Basis of Accounting*** *(Continued)*

The Agency's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the City are discussed below.

***Fund Balance Classifications***

Governmental fund balances are classified as follows:

**Nonspendable -** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

**Restricted -** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

**Committed -** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Agency Board.

**Assigned -** This classification includes amounts that are constrained by the Agency's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Agency Board or through the Agency Board delegating this responsibility to the Agency director through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

**Unassigned -** This classification includes the residual fund balance for the General Fund. The Unassigned classification would also include negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The Agency would typically use restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

***Budget Basis of Accounting***

Budgetary controls for the Agency are established in accordance with the Housing and Urban Development program years which cover periods other than the Agency fiscal year. Consequently, no Statement of Budgeted and Actual Revenues, Expenditures, and Changes in Fund Equity is presented in these financial statements.

***Cash and Cash Equivalents***

Cash includes cash and cash equivalents with original maturities of 90 days or less.

## NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### *Mortgage Loans Receivable and Allowance for Loan Losses*

The Agency uses the allowance method for uncollectible mortgage loans and other receivables. When the allowance account is increased, the offset is a reduction of unearned revenue which has the effect of reducing the amount of funds expected to be collected and available for new loans. The Agency recorded a total allowance for uncollectible mortgage loans of approximately $2,279,000 and $2,146,000 at December 31, 2012 and 2011, respectively.

The Agency's allowance is estimated based on delinquency rates, current economic conditions, borrowers' outstanding balances, and an analysis of borrower's financial condition. A number of the Agency's borrowers have experienced financial difficulties. In some cases, projected growth and overall economic conditions have substantially changed since loan origination. The Agency is also involved in repayment negotiations with borrowers who are experiencing severe financial difficulties. Once a loan has been identified as delinquent, the Agency forwards the loan to its legal counsel for collection. The Agency has a set policy for pursuing delinquent borrowers.

If legal counsel determines that the loan proceeds will not be collected, the loan is submitted to the Agency's Director so that it can be approved for write-off.

### *Capital Assets*

Capital assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements, and other capital outlays greater than $500 that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|---|---|
| Buildings | 27.5 years |
| Furniture and equipment | 5-7 years |

### *Unearned Revenue*

Unearned revenue consists principally of mortgage loan principal amounts to be collected in future periods and loan amounts that are being forgiven annually as described in Note 3. Loan payments are also unearned until new loans or eligible expenditures occur. At that time, revenues and corresponding expenses are recognized. When the allowance for loan losses is increased, a corresponding decrease in the amount of unearned revenue is made in the same period, the effect of which is to reduce the overall amount of funds available for future loans.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

***Other Postemployment Benefits (OPEB) - GASB Statement No. 45***

GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* establishes standards for the recognition, measurement, and display of OPEB (retiree health insurance) expenses and related liabilities and note disclosures.

The City does not pass-through OPEB costs to the Agency, as all Agency employees are employees of the City. The City does, however, pass-through salary, employee health insurance and pension costs for these employees to the Agency. As part of the City's implementation of the GASB Statement it includes the OPEB liability and related expenses for all City employees working at the Agency in the City's financial statements. Therefore, no accrual for the Agency's OPEB liability and expense has been included in these financial statements.

## NOTE 2 — CASH AND CASH EQUIVALENTS

The Agency's investment policies are governed by State statutes. Cash and cash equivalents of the Agency must be deposited in FDIC-insured commercial banks or trust companies located within the State. The Chief Fiscal Officer is authorized to use demand accounts and certificates of deposit. Permissible investments include obligations of U.S. agencies, repurchase agreements, and obligations of New York State or its localities.

Collateral is required for demand deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of the State and its municipalities and school districts.

At December 31, 2012, the carrying amounts of the Agency's deposits were approximately $1,088,000 and $144,000 ($975,000 and $151,000 at December 31, 2011) for the General and Special Revenue Funds, respectively. All deposits in excess of FDIC limits are adequately collateralized at December 31, 2012.

## NOTE 3 — MORTGAGE LOANS RECEIVABLE, NET

The Agency lends monies received through Federal grants (principally HUD CDBG) to individuals, businesses, and non-profit agencies at low interest rates to fund the acquisition and rehabilitation of low income housing and other community development projects in the City. Loan disbursements are recorded as grant expenditures and loan repayments are recorded as program income. Mortgage loans receivable and the related unearned revenue account consist of principal to be collected in future periods or principal amounts that are forgiven annually in accordance with grant provisions.

Interest rates and loan periods are determined using criteria established by the granting agency. Interest rates on these loans range between 0% and 8% and loan periods are either for a period of up to 15 years or unearned and forgiven as long as the beneficiary is in compliance with the loan agreement.

Funds received from the NYSHTFC were used to establish loans with various not-for-profit organizations, for use in the acquisition and rehabilitation of low income housing. In accordance with applicable grant provisions, loan disbursements are reflected as Due to New York Housing Trust Fund Corporation (NYSHTFC). Funds disbursed to participants generally do not bear interest and are repayable over a period of 15 to 25 years. In accordance with loan agreements, annually, on the anniversary date of completion of the project, one fifteenth or twenty-fifth of the loan is forgiven as long as the beneficiary is in compliance with the loan agreement.

## NOTE 3 — MORTGAGE LOANS RECEIVABLE, NET (Continued)

In 2011, the Agency initiated a Choose Albany revolving loan fund utilizing general funds. The revolving loan fund promotes home ownership in Albany and will be for 8% of the purchase price up to $15,000. The loan can be utilized for down payment assistance or closing costs. The loans have a ten year term with zero percent interest.

The balance of mortgage loans receivable, net of the related allowance, is comprised of the following at December 31, 2012 and 2011:

| Program | December 31, 2012 | December 31, 2011 |
|---|---|---|
| HUD, net of allowance | $ 6,763,620 | $ 6,485,123 |
| HUD, forgivable grant loans, net of allowance | 3,362,143 | 4,024,792 |
| NYSHTFC, net of allowance | 419,035 | 530,927 |
| Choose Albany, net of allowance | 230,269 | 210,550 |
| | $ 10,775,067 | $ 11,251,392 |

## NOTE 4 — DUE FROM FEDERAL GOVERNMENT

Due from federal government represents grant-eligible expenses incurred by the Agency through December 31, 2012 and 2011 that have yet to be reimbursed by applicable federal grant funding programs.

## NOTE 5 — CAPITAL ASSETS

Property and equipment is comprised of the following:

| | Balance December 31, 2011 | Additions | Deletions | Balance December 31, 2012 |
|---|---|---|---|---|
| Land | $ 451,995 | $ - | $ (9,750) | $ 442,245 |
| Furniture and equipment | 258,908 | - | - | 258,908 |
| Buildings | 2,610,928 | - | - | 2,610,928 |
| | 3,321,831 | - | (9,750) | 3,312,081 |
| Less: accumulated depreciation - furniture and equipment | 205,141 | 13,868 | - | 219,009 |
| Less: accumulated depreciation - buildings | 732,882 | 72,640 | - | 805,522 |
| Net property and equipment | $ 2,383,808 | $ (86,508) | $ (9,750) | $ 2,287,550 |

## NOTE 6 — DUE TO FEDERAL GOVERNMENT

Due to federal government represents grant monies received by the Agency, principally related to the lead paint abatement program, that have not been applied to qualified grant expenses as of December 31, 2011 (none at December 31, 2012).

## NOTE 7 — LONG-TERM OBLIGATIONS

Long-term obligations of the Agency include notes payable, bonds payable, and capital lease obligations.

The following is a summary of long-term obligation transactions of the Agency for the year ended December 31, 2012:

| | December 31, 2011 | Increases | Decreases | December 31, 2012 |
|---|---|---|---|---|
| Bond payable (A) | $ 88,199 | $ - | $ (29,375) | $ 58,824 |
| Note payable (B) | 100,000 | - | - | 100,000 |
| Capitalized lease obligation (C) | 955,000 | - | (115,000) | 840,000 |
| Note payable (D) | 155,000 | - | (20,000) | 135,000 |
| Note payable (E) | 140,323 | - | (8,237) | 132,086 |
| Note payable (F) | 500,000 | - | (34,846) | 465,154 |
| | $ 1,938,522 | $ - | $ (207,458) | $ 1,731,064 |

(A) During 2003, the Agency issued $500,000 in General Obligation Bonds. The interest rate on the bonds is 4.07%. The bonds have a maturity date of October 2013. Bond proceeds are used to fund loans granted through the Albany Down Payment Assistance Program. Principal payments are required to be paid in conjunction with payments received from loan beneficiaries.

(B) During 2002, the Agency borrowed the sum of $100,000 from the Capitalize Albany Corporation (former Albany Local Development Corporation, CAC) to establish a fund for collateral for the Albany Down Payment Assistance Program. The proceeds of this note are required to be maintained in a segregated bank account until note maturity. The term of the note shall be the length of the City of Albany Down Payment Assistance Program but no longer than August 9, 2013. The Agency will pay interest earned on the secured funds upon repayment of the note. There are no scheduled monthly payments until maturity.

(C) Capital lease for the Agency's facility located at 200 Henry Johnson Boulevard. The lease has a sixteen year term and the agreement requires the Agency to remit semi-annual payments to the Capitalize Albany Corporation through 2018. The interest portion of future minimum lease payments is $152,663 and the net present value of the lease payments at December 31, 2012 is $840,000.

(D) As part of the capitalized lease obligation, described in (C) above, the Agency executed a note payable to CAC to pay for all previously unreimbursed tenant expenses. The note has a sixteen year term and the agreement requires the Agency to remit semi-annual payments to CAC through 2018.

(E) Note payable from CAC to fund improvements made to one of the Agency's properties located at 388 Clinton Avenue. The note is collateralized by a mortgage agreement on the building located at 388 Clinton Avenue. The note is being amortized over a period of twenty years, with monthly principal and interest payments. The interest rate for the first five years of the note is fixed at 4%, and is subject to every five years thereafter to prime plus 1%.

**NOTE 7 — LONG-TERM OBLIGATIONS** (Continued)

(F) During 2011, the Agency borrowed the sum of $500,000 from the Capitalize Albany Corporation to purchase property at 25 Delaware Avenue. The note is collateralized by a mortgage agreement on the property located at 25 Delaware Avenue. The note is being paid over a period of ten years, with monthly principal and interest payments. The balance is due in full at the time of sale or change in ownership of the property. The interest rate is 5.75%. The property acquired was recorded as property held for sale and included in other assets in the statement of net position.

A summary of future minimum debt payments is as follows at December 31, 2012:

| | Notes | Bonds | Capitalized Lease Obligations | Total Principal | Total Interest | Total Debt Service |
|---|---|---|---|---|---|---|
| 2013 | $ 170,521 | $ 58,824 | $ 120,000 | $ 349,345 | $ 84,244 | $ 433,589 |
| 2014 | 73,298 | - | 130,000 | 203,298 | 72,572 | 275,870 |
| 2015 | 77,232 | - | 135,000 | 212,232 | 60,812 | 273,044 |
| 2016 | 80,332 | - | 145,000 | 225,332 | 48,396 | 273,728 |
| 2017 | 84,616 | - | 150,000 | 234,616 | 35,373 | 269,989 |
| 2018-2022 | 328,265 | - | 160,000 | 488,265 | 45,966 | 534,231 |
| 2023-2024 | 17,976 | - | - | 17,976 | 513 | 18,489 |
| | $ 832,240 | $ 58,824 | $ 840,000 | $ 1,731,064 | $ 347,876 | $ 2,078,940 |

**NOTE 8 — COMMITMENTS AND CONTINGENCIES**

**Federal and State Grant Funding**

The Agency receives a major portion of its annual revenues through Federal and New York State grants. Any significant reduction in grant funding levels could have a negative impact on the Agency and the services it offers. The Agency's grant funding is typically awarded for specific programs or purposes and is subject to review and audit by the grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the applicable grant. Management believes that all grant funds were expended in accordance with applicable terms and does not expect any significant disallowance claims will be made by grantor agencies.

During 2012, the Agency was audited by the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General (OIG) for the Community Development Block Grant Recovery Act program (CDBG-R program). An audit report was issued in December 2012 and reissued in February 2013 by the OIG recommending that the Director of HUD's Buffalo Office of Community Planning and Development instruct the management to (1) repay from non-Federal funds the ineligible costs of $5,291 and (2) submit documentation to justify the unsupported costs of $740,682 so that HUD can make an eligibility determination. In February 2013, the Agency timely submitted documentation to justify the unsupported costs and provided additional information and documentation for the ineligible costs. Management believes that sufficient documentation has been provided for HUD to determine the eligibility for all project costs that were in question.

At the date of the issuance of the financial statements, the Agency's HUD Buffalo representative has reviewed and submitted the Agency's response to the OIG and is awaiting the OIG's decision. Based on facts currently available, management believes that the ultimate outcome of this matter will not have a material adverse effect on the Agency's financial statements as a whole. Accordingly, no adjustments have been made to the Agency's financial statements for the year ended December 31, 2012.

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY, NEW YORK)**
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**December 31, 2012**

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| **U.S. Department of Housing and Urban Development** | | |
| ***Direct Programs:*** | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | $ 3,118,026 |
| ARRA - Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) | 14.253 | 67,416 |
| Emergency Shelter Grant Program | 14.231 | 188,012 |
| HOME Investment Partnerships Program | 14.239 | 866,564 |
| Housing Opportunities for Persons with AIDS | 14.241 | 561,639 |
| ARRA - Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) | 14.257 | 2,241 |
| Brownfield Pilots Cooperative Agreements | 66.811 | 155,742 |
| **Pass-Through NYS Division of Housing and Community Renewal:** | | |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | 444,466 |
| Community Development Block Grants/Entitlement Grants | 14.218 | 1,624,436 |
| Total U.S. Department of Housing and Urban Development | | $ 7,028,542 |

*See notes to schedule of federal financial awards.*

## NOTE 1 — BASIS OF PRESENTATION

### *Reporting Entity*

The accompanying Schedule of Federal Financial Expenditures presents the activity of federal financial assistance programs administered by the Agency, an entity as defined in the financial statements.

### *Pass-Through Programs*

Where the Agency receives funds from a government entity other than the federal government (pass-through), the funds are accumulated based upon the Catalog of Federal Domestic Assistance (CFDA) number advised by the pass-through grantor.

Identifying numbers, other than CFDA numbers, which may be assigned by pass-through grantors, are not maintained in the Agency's financial management system.

### *American Recovery and Reinvestment Act of 2009*

In 2009, the American Recovery and Reinvestment Act of 2009 (ARRA, Recovery Act) was enacted. The Recovery Act provides for appropriations for job preservation and creation, infrastructure investment, energy efficiency and science, assistance to the unemployed, State and local fiscal stabilization and for other purposes. Recovery Act funded federal expenditures consisted of the following for the year ended December 31, 2012:

| Federal Grantor/Program Title | Federal CFDA Number | Federal Expenditures |
|---|---|---|
| Community Development Block Grant ARRA Entitlement Grants (CDBG-R) (Recovery Act Funded) | 14.253 | $ 67,416 |
| Homelessness Prevention and Rapid Re-Housing Program (Recovery Act Funded) | 14.257 | 2,241 |
| Total Recovery Act Funded Expenditures | | $ 69,657 |

## NOTE 2 — BASIS OF ACCOUNTING

The basis of accounting varies by federal program consistent with the underlying regulations pertaining to each program.

The amounts reported as federal expenditures generally were obtained from the appropriate federal financial reports for the applicable program and periods. The amounts reported in the federal financial reports are prepared from records maintained for each program.

## NOTE 3 — INDIRECT COSTS

Indirect costs are included in the reported expenditures to the extent such costs are included in the federal financial reports used as the source for the data presented.

## NOTE 4 — MATCHING COSTS

Matching costs, such as the Agency’s share of certain program costs, are not included in the Schedule of Expenditures of Federal Awards.

**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***

The Board of Directors
Albany Community Development Agency

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 financial statements of Albany Community Development Agency (Agency), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Albany Community Development Agency's basic financial statements, and have issued our report thereon dated September 10, 2013.

**Internal Control Over Financial Reporting**

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Albany Community Development Agency'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*.

UHY LLP Certified Public Accountants

**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
September 10, 2013

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
Albany Community Development Agency

### Report on Compliance for Each Major Federal Program

We have audited Albany Community Development Agency's (Agency) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Agency's major federal programs for the year ended December 31, 2012. The Agency's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Agency's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Agency's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Agency complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-1 and 2012-2. Our opinion on each major federal program is not modified with respect to these matters.

The Agency's responses to the noncompliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questions Costs.* The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### Report on Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Agency's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items *2012-1 and 2012-2* that we consider to be significant deficiencies.

The Agency's response to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The Agency's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

UHY LLP

Albany, New York
September 10, 2013

# ALBANY COMMUNITY DEVELOPMENT AGENCY
**(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)**
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**
**December 31, 2012**

## Section I – Summary of Auditor's Results

**FINANCIAL STATEMENTS**

| | |
|---|---|
| A. Type of auditor's report issued: | Unmodified |
| B. Internal Control Over Financial Reporting | |
| Material weakness identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weakness? | None Reported |
| C. Noncompliance Material to Financial Statements noted? | No |

**FEDERAL AWARDS**

| | |
|---|---|
| A. Internal Control Over Major Programs | |
| Material weakness identified? | No |
| Significant deficiency(ies) identified that are not considered to be material weakness? | Yes |
| B. Type of auditor's report issued on compliance for major programs: | Unmodified |
| C. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: | Yes |

D. Major programs

| | **CFDA Number** |
|---|---|
| U.S. Department of Housing and Urban Development<br>Community Development Block Grants/Entitlement Grants | 14.218 |
| U.S. Department of Housing and Urban Development<br>Community Development Block Grant ARRA Entitlement<br>Grants (CDBG-R) (Recovery Act Funded) | 14.253 |
| U.S. Department of Housing and Urban Development<br>HOME Investment Partnerships Program | 14.239 |
| U.S. Department of Housing and Urban Development<br>Pass-Through NYS Division of Housing and Community Renewal<br>Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 |

| | |
|---|---|
| E. Dollar threshold to determine between Type A and Type B programs: | $300,000 |
| F. Auditee qualified as low-risk auditee? | Yes |

## Section II – Financial Statement Findings

None reported.

## Section III – Federal Award Findings and Questioned Costs

**Finding 2012-1 (Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – CFDA 14.253, Community Development Block Grants – CFDA 14.218)**

**Criteria:** Grantee is required to monitor that subrecipients expending $500,000 or more in Federal awards during subrecipients' fiscal year have met the audit requirements of OMB Circular A-133.

**Condition:** For certain subrecipient expenditures selected for testing, we noted that ACDA did not obtain the subrecipients' single audit reports as part of its subrecipient monitoring procedures.

**Effect:** Certain subrecipents of ACDA may not be in compliance with the audit requirements of OMB Circular A-133.

**Cause:** ACDA's subrecipient monitoring procedures did not have the appropriate processes and procedures in place to ensure subrecipients are in compliance with the audit requirements of OMB Circular A-133.

**Recommendation:** Procedures should be enhanced to ensure that all subrecipients expending $500,000 or more in Federal awards during the subrecipients' fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipients' audit period, issuing a management decision on audit findings within 6 months after receipt of the subrecipients' audit report and ensuring that subrecipient takes timely and appropriate corrective action on all audit findings.

**Management Response and Corrective Action Plan:**
As part of the application process ACDA requires that subrecipients provide their most recent financial statements so an initial financial review is performed prior to awarding funding. ACDA will implement an additional annual process whereby all subrecipients must submit financials within 9 months of the end of the subrecipient's audit period or must provide a written certification that they are not subject to the audit requirements of OMB Circular A-133. Any audit findings contained within a subrecipient's audited financial statements will be followed up on in accordance with the requirements of OMB Circular A-133.

## Section III – Federal Award Findings and Questioned Costs (Continued)

**Finding 2012-2 (Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – CFDA 14.253)**

**Criteria:** Federal Regulations require that all reporting be submitted correctly and timely.

**Condition:** The 1512 2012 Q1 and Q3 ARRA report did not report Data Element – Total Federal Amount of ARRA Expenditure and Data Element Total Federal Amount ARRA Funds Received/Invoice correctly. Additionally, the 1512 2012 Q2 ARRA report was not submitted by the required deadline.

**Effect:** The 1512 2012 Q1 and Q3 reports submitted and the 1512 2012 Q2 report not submitted are not in compliance with federal reporting requirements.

**Cause:** Incorrect data was utilized for the preparation of the 1512 2012 Q1 and Q3 reports. In addition, there were issues with uploading the 1512 2012 Q2 report.

**Recommendation:** Procedures should be implemented to ensure that all amounts reported agree or reconcile to amounts in accounting records and reports are submitted timely.

**Management Response and Corrective Action Plan:**
Report submittal difficulties began with the Q4 2011 ARRA report and continued into 2012 reporting. There were problems encountered with uploading reports and ACDA did not receive instructions from HUD on how to correct erroneous reports once they were submitted. As the result of the problems detected in 2011, ACDA implemented an improved report review process; however, the computerized reporting system continued to be problematic. Ultimately the incorrect reporting for ARRA CDBG-R funds was resolved during finalization of the CDBG-R program, which occurred in 2012. The improved report review process remains in place.

## Section IV – Status of Prior Year Findings

**Finding 2011-1 (Community Development Block Grant ARRA Entitlement Grants (CDBG-R) – CFDA 14.253)**

**Condition:** The 1512 2011 Q4 ARRA Report did not report Data Element – Total Federal Amount of ARRA Expenditure correctly.

**Action Taken or Status:** This finding was repeated in the current year, as Finding 2012-2.

**Finding 2011-2 (Homeless Prevention and Rapid Re-Housing Program – CFDA 14.257)**

**Condition:** The 1512 2011 Q3 ARRA Report overstated Data Element – Total Federal Amount of ARRA Expenditure, and correspondingly ACDA did not submit the 1512 2011 Q4 ARRA Report.

**Action Taken or Status:** This compliance violation was corrected in 2012.