

**ALBANY COMMUNITY
DEVELOPMENT AGENCY**
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)

AUDITED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Albany Community Development Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Albany Community Development Agency (the Agency), a blended component unit of the City of Albany as of and for the year ended December 31, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Agency's 2007 financial statements and, in our report dated August 20, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2009 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* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose for forming an opinion on the basic financial statements of Albany Community Development Agency taken as a whole. 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

UHY LLP

Albany, New York
July 20, 2009

**Management Discussion & Analysis for Albany Community Development Agency (“ACDA”)
A Component Unit of the City of Albany, NY
As Supplemental Information for ACDA Financial Statements for
December 31, 2008 and the Year then Ended**

As management of the Albany Community Development Agency (“ACDA”), this discussion and analysis is offered to assist readers in understanding the financial operations of ACDA in conjunction with the financial statements presented on Page 14 for the year ended December 31, 2008. The goal of this discussion and analysis is to highlight how the organization has financially met its goals and objectives and what changes have been occurring within ACDA. We encourage readers to read this Management Discussion and Analysis in conjunction with the financial statements and notes contained within those statements.

The goal of this Management Discussion and Analysis is to assist financial statement readers in increasing their understanding of what the organization does with its funds and how financial conditions within ACDA change with time. This Discussion and Analysis will provide comparative analysis of data between 2007 and 2008 and the years then ended.

Introduction:

ACDA is a public benefit corporation established by the City of Albany, New York, and is governed by a board of directors appointed by the Mayor of Albany, NY. ACDA is located on Henry Johnson Boulevard in Albany and is in an area targeted for assistance under many of the programs offered by ACDA. It is a component entity of the City of Albany. As a component unit, ACDA employees are City of Albany employees and abide by City of Albany personnel policies and procedures. Common purchasing occurs for some operational supplies and services as well. As a component unit of the City, ultimately the goals and objectives of ACDA are part of an overall vision for the City of Albany. As described more fully in the Notes to the Financial Statements, ACDA's goal is to provide suitable living environments and economic opportunities for persons of low and moderate income.

Funds used by ACDA come primarily from the U.S. Department of Housing and Urban Development (“HUD”), which administers the Community Development Block Grant (“CDBG”), which is ACDA's largest program area, accounting for approximately 54% of grant revenue, the HOME Investment Partnership Program (“HOME”), the Emergency Shelter Grant (“ESG”), the Housing Opportunities for Persons with Aids Grant (“HOPWA”), and the Lead Paint Abatement Program. While there are other smaller sources of income, these are the main sources for both 2007 and 2008.

In both 2007 and 2008 ACDA did expend amounts related to various brownfield related grants. Funding for the brownfield projects comes from multiple sources: The Environmental Protection Agency, the NYS Department of Environmental Conservation, and CDBG. Brownfield projects are projects that clean up sites where environmental spills or degradation took place. ACDA's involvement with brownfield clean-up is in keeping with the mission of helping provide quality living environments. The amounts spent in 2008 were significantly lower than those of 2007. In 2007 there were larger expenditures for specific projects on Henry Johnson Boulevard.

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 and ensures that funding source requirements and compliance needs are met. The Federal Government, through the specific HUD programs from which ACDA derives most of its funding, has more recently placed emphasis on using funds in direct assistance and home and living environment based projects. Leading up to the year 2007, ACDA responded to HUD's emphasis by allocating more monies to such projects and less monies to public service projects. Public service project support was similar between 2007 and 2008. ACDA determined, as part of a larger city initiative, that targeting specific areas is an effective way of making a noticeable and lasting improvement in those areas. Thus there has been an emphasis on such targeted projects with less emphasis on the individual housing projects.

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Decisions about how to spend monies are made through a defined process during which City of Albany citizens are involved. Every 5 years ACDA presents a Consolidated Plan that states broad goals and objectives that may include such items as stabilizing neighborhoods, providing affordable and safe housing, assisting with economic development within the City, infrastructure needs, assisting in dealing with homelessness and so forth. The Consolidated Plan is presented publicly with considerable opportunity for the public to make comment and provide suggestions. The plan is adopted formally and must be approved by HUD to ensure it is in full compliance with the objectives required in order to receive entitlement funding. The most recent Consolidated Plan was approved for the 2006 to 2010 time frame.

Each year, an Annual Plan is developed and adopted as based on the Consolidated Plan. The Annual Plan gets more specific in the implementation of the 5-Year Plan. As with the Consolidated Plan, the Annual Plan is open to public comment. Should significant changes be proposed for the plan during a year, those changes are also required to go through the public process.

Financial Highlights:

- ACDA’s financial statements are prepared on a calendar year basis. However the Federal Aid awards (known as entitlements) that are the primary source of revenue for ACDA are provided on a program year basis. The Federal program year runs from June 1 to May 31 each year. As a result, the 2007 calendar year financial statements include 5 months of the program year ended 5/31/07 (known as Program Year 32) and 7 months of the program year beginning 6/1/07 (known as Program Year 33). The 2008 calendar year financial statements include 5 months of the program year ended 5/31/08 (known as Program Year 33) and 7 months of the program year beginning 6/1/08 (known as Program Year 34).
- ACDA’s entitlements in general had been declining in recent years as the result of overall HUD funding cuts that affected entitlement communities across the United States. For perspective, ACDA saw an approximate 20% decrease during the 7 years leading to Program Year 32. Program Year 33’s CDBG entitlement was \$3,825,419. Program Year 34’s CDBG entitlement is \$3,668,950 (thus a 4% decrease between the 2 program years).
- HOME entitlement funding had been historically increasing as HUD concentrated on the HOME program and its goals and objectives. Then effective with Program Year 31, ACDA began to experience cuts. Since peaking in Program Year 30 at \$1,578,702, HOME entitlement decreased approximately 18% as of Program Year 33. Another 3% decline in HOME entitlement occurred between Program Years 33 and 34.
- After seeing some fluctuations during the several years HOPWA funding has been awarded to ACDA, the last few program years, including those of the program years presented in these financial statements, has remained stable.
- ESG funding has been historically the most consistent entitlement funding for ACDA. Recently, ACDA has received almost the same funding for Program Years 32, 33, and 34, which are the program years presented in these financial statements.
- With the new administration taking over in the United States, there has been a shift of attitude to the entitlement programs which ACDA is primarily funded from. There is increased support for the programs and part of the Federal stimulus package includes monies for housing related programs. Program Year 35 awards, which have been announced, are slightly increased over Program Year 34. The entitlement monies awarded for Program Year 35 are: CDBG, \$3,706,672; HOME, \$1,393,675; ESG, \$163,354; and HOPWA, \$471,430. HUD will be awarding what will be known as CDBG-R monies which must be expended using the standard CDBG regulations. It is expected that ACDA will receive approximately \$996,000 of CDBG-R funds. Additionally, as part of the stimulus monies, ACDA is being awarded \$1,523,772 of Homeless Prevention and Rapid Re-housing monies which will more fully explained later in this document.
- There are often timing differences between when the entitlement period is and when actual funds are drawn down. Funds are drawn down as projects are completed and expenditures incurred.

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- Lead monies are awarded by HUD on a competitive basis whereby periodic applications are made. Award time periods do not coincide with a fiscal or calendar year. During 2006 ACDA was awarded \$3,000,000 of Lead Paint Abatement program funds that became accessible during the fiscal year of 2007. The award is for a three year time period. Revenues and expenditures related to the Lead Paint Abatement program as shown in the 2007 financial statements represent the final expenditures on the ‘round’ (the title for the lead awards) prior to the 2006 round as well as the beginning of the 2006 round. 2008 financial statements encompass only the 2006 round. ACDA did receive notice of the award of the 2008 round for an additional \$3,000,000 for a new three year time period. Activity related to the latest award will begin during calendar year 2009. There was a decrease in the expenditures for the lead program for 2008. All projects that go through ACDA’s in-house programs must go through the lead program to ensure that as part of any project, homes become lead paint free. The decrease in in-house programs as more fully described below and a decrease in the per-unit cost of a lead unit are the primary reasons for decreases in the lead costs during 2008.
- The net assets of ACDA are more representative of timing differences as ACDA does not have a profit goal such as would be found in the ‘corporate world’.
- ACDA continually experiences changes in the popularity and use of its in-house programs. In part these changes relate to economic conditions and interest rates. Home Acquisition Program (HAP) expenditures included in the financials showed a significant increase for 2007, however, decreased for 2008. During 2008 9 HAPS were completed versus 28 in 2007. Homeowner Assistance Program (HOAP) costs had increased in 2007 as ACDA saw considerably larger per project expenditures for the HOAP cases primarily as a result of steep increases in overall construction costs within the construction industry (lumber and steel costs rose dramatically). Material costs stabilized for 2008. There were less HOAP cases that went through ACDA during 2008, though, which led to an approximate 15% decrease in HOAP expenditures. Tenant Assistance Rehabilitation Program (TARP) usage remained relatively stable between 2007 and 2008 as ACDA began to eliminate the TARP program. More detail on the purposes of the individual programs is provided further into this document.
- As a result of the continual review of programs, ACDA implemented one new program, the Senior Housing Rehabilitation Program, during 2007. The program had enormous initial demand with over \$630,000 (approximately 130 projects) expended during 2007. The maximum per project funding through the SRP is \$5,000 and most projects were for full funding. Approximately \$185,000, which was for 44 projects, was expended for the SRP program during calendar year 2008.
- Program Year 34 brought a change in philosophy with respect to the in-house programs and use of entitlement funds. This is based on changes in use of housing programs and a focus on neighborhood revitalization where larger areas could be improved simultaneously. As noted above, the TARP program was eliminated during 2008 as part of this review.
- ACDA received a new grant, originally known as AHHIP (Arbor Hill Home Improvement Program) that began in 2007. This is a \$300,000 grant of which about \$61,000 was expended, and thus earned, during 2007. Due to a lack of owner occupied home ownership in the Arbor Hill area, ACDA did not see the interest in the program as originally planned. ACDA requested and received approval to widen the area eligible for funding from the granting agency. This program became the Neighborhood Strategy Area program during 2008. Over \$180,000 was expended for projects during 2008.
- Grant revenues and corresponding expenditures for brownfield grants decreased approximately 80% between 2007 and 2008. The primary reason for the decrease is that 2007 expenditures included final costs for completion of the Henry Johnson Park.
- Program income, which is income that ACDA generates primarily through loan collections and rents decreased in 2008 from 2007. Loan collections, in particular, can fluctuate considerably from year to year.

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- During 2008 the department of Neighborhood Revitalization was formed and while considered a separate department within the office of economic development of the City of Albany, runs from within ACDA. The ability to fund this department was the result of refocusing resources. As discussed separately there is increased emphasis on revitalization within areas in order that low-to-moderate income residents see area benefit including large tracts of affordable and well-maintained housing, improved safety, access to needed services and so forth.

Overview of the Financial Statements:

This Discussion and Analysis is provided as an introduction to the General Purpose Financial Statements. The General Purpose Financial Statements consist of a Balance Sheet which outlines the assets, liabilities, and net assets of the organization by types of fund, a Statement of Revenues, Expenditures and Changes in Fund Balances which provides information on where revenues come from and how they are expended by broad category and by type of fund, and the notes to the financial statements which provide additional information on the financial statements and explain the different types of funds presented and the significant accounting policies used. Governmental fund balance financial reports are included as part of the set of financial statements as well.

Net assets increase when revenues exceed expenditures and decrease when expenditures exceed revenues. Net assets are similar to what would be known as owners' or shareholders' equity in the for-profit business sector. The goal of ACDA is to maintain a relatively stable net asset figure since there is no objective to accumulate profits, however, due to timing differences, net assets can fluctuate considerably. ACDA was formed to be a conduit primarily for Federal funds to assist in providing healthy living environments and economic opportunities for low and moderate income people. As such, the goal is to expend revenues as they come in to meet those goals as timely as possible. In fact, 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.

ACDA does not have a for-profit business type of goal where shareholders want to accumulate profits in order to pay dividends. Mostly due to timing issues in conjunction with determining the best uses of revenue, net assets do fluctuate. Assets are recorded when ACDA takes 'ownership' of the asset or has a right to the underlying item (such as the right to collect on a non-compliant mortgage receivable). Liabilities are recorded when they are incurred.

Expenditures are spent mostly on programs that meet the goals as stated above. As noted previously in this Management Discussion and Analysis, 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), but 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 objective of the Agency.

Some money does need to be expended for administration. Administration includes the oversight of ACDA as a whole, the operation of offices to house ACDA staff and equipment, and the costs of staff performing such tasks as accounting, clerical functions, overall operational management, and budgeting and planning. HUD requires that no more than 20% of all revenue from Federal sources be used for administration. ACDA administrative costs are within the HUD requirements.

The financial statements presented here are for calendar years 2008 and 2007. As described previously, program years are fiscal years which end each May 31. Program years coincide with the availability of Federal funds.

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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 the financial statements presented on pages 14 to 15 for the calendar years of 2007 and 2008 and the years then ended:

| | <u>2008</u> | <u>2007</u> |
|---|-------------------|---------------------|
| Current and Other Assets (except for Mortgage Loans Receivable) | \$ 1,893,000 | \$ 2,377,000 |
| Mortgage Loans Receivable, Net | 14,083,000 | 14,707,000 |
| Capital Assets | <u>2,336,000</u> | <u>2,416,000</u> |
| Total Assets | <u>18,312,000</u> | <u>19,500,000</u> |
| Current Liabilities | 1,397,000 | 1,223,000 |
| Deferred Revenues | 13,025,000 | 12,905,000 |
| Due to NYS Housing Trust Fund | 871,000 | 984,000 |
| Other Liabilities | <u>2,069,000</u> | <u>2,349,000</u> |
| Total Liabilities | <u>17,362,000</u> | <u>17,461,000</u> |
| Net Assets | <u>\$ 950,000</u> | <u>\$ 2,039,000</u> |
| Grant Revenue | \$ 7,124,000 | \$ 11,406,000 |
| Expenses: | | |
| Program Related | 7,538,000 | 9,311,000 |
| Administrative | <u>680,000</u> | <u>837,000</u> |
| Total Governmental Activities | (1,094,000) | 1,258,000 |
| Other Revenue (Expense): | | |
| Interest and Other Income | 4,000 | 7,000 |
| Loss on Disposal of Assets | <u>1,000</u> | <u>(13,000)</u> |
| Change in Net Assets | (1,089,000) | 1,252,000 |
| Net Assets, Beginning of Year | <u>2,039,000</u> | <u>787,000</u> |
| Net Assets, End of Year | <u>\$ 950,000</u> | <u>\$ 2,039,000</u> |

Financial Analysis

Information is required to be separated into governmental activities and business-type activities. ACDA operations are all governmental activities except for one program known as the Albany Down Payment Assistance Program (ADAP).

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ADAP began in 2002 and is a program that anyone can utilize, regardless of income, and is accessible through the Homestore (which is more fully described below). The goal of ADAP is to encourage homeownership in the City of Albany through the provision of 0% interest loans for down payments. The income and costs associated with ADAP are minimal compared to the overall income and expenses of ACDA as a whole. Since the goal of ADAP is to assist the City of Albany in becoming a more viable, economically stable environment, ADAP does meet the overall purpose of ACDA and thus allows for ADAP to be a complimentary program for ACDA.

In order to generate the funds needed to make the down payment loans for ADAP, bonds totaling \$700,000 were issued by ACDA and sold to Fannie Mae. The Albany Local Development Corp. (ALDC), provided \$100,000 of required collateral for this program. There are interest shortfall payments required on the bonds which are the responsibility of ACDA. Interest shortfall is incurred because the earnings on the funds are not sufficient to cover the full interest payments to bondholders. Activity related to ADAP is recorded within the Special Revenue Fund. The Special Revenue Fund is a fund where the monies that flow through the fund can only be expended for specific purposes. As the ADAP program is not a program eligible for use of HUD funds, the accounting for the ADAP program is separately recorded from HUD funded activities. All authorized bonds have been issued and the remaining bond proceeds will be loaned under the provisions of the ADAP program until fully depleted. Full depletion is expected to occur in calendar year 2009 or 2010. The program will cease at that time, or in the year 2013, if earlier, as 2013 is when the bonds are fully due. The repayments from loans are used to repay the bondholders.

ACDA's most significant asset is mortgage loans receivable. Mortgage loans receivable represent the amounts outstanding in mortgages made for various programs of ACDA that encourage homeownership and rehabilitation of housing for low to moderate income individuals. The majority of the mortgage loans made from ACDA via the general fund 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. The period for forgiving the loans differs depending on the program the monies were loaned from. When an ability to repay the loan exists, traditional type loans are established with repayment terms and are serviced currently by Bank of America. These loans are low interest loans and are often combined with the use of granted funds as more fully described in this analysis.

Loans made through the special revenue fund are related to Housing Trust Fund (“HTF”) monies. All of these loans are deferred types of loans. No new HTF loans have been made in several years. ACDA currently only monitors compliance for the existing loans.

Allowances for doubtful loans are computed based on knowledge of the status of loans and an estimate of potential doubtful loans. 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 Bank of America loan, the remaining balance on the loan becomes immediately due.

ACDA's most significant liability is deferred revenue. Deferred revenue consists entirely of outstanding loans generated through CDBG and HOME fund entitlements. Deferred revenue is related to the mortgage loans receivable and is used as an account to manage the funds available to loan out in the future. See the notes to the financial statements for additional information.

To assist the reader of this Discussion and Analysis and the corresponding financial statements and their notes, it is helpful to have a brief overview of the mortgage programs being referred to here. As noted above, many of the mortgage programs entail mortgages that are forgiven over a length of time and with each portion forgiven, essentially become a grant. Because the mortgages receivable and the associated deferred revenue are so significant to the finances of ACDA, knowing the primary types of assistance available will help offer perspective on the operations of ACDA.

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| Type of Assistance | Information about the Terms |
|---|---|
| Home Acquisition Program (HAP) | Assists low-income households to purchase and occupy their first home in the City of Albany. Non-profit organizations that assist low-income households in becoming owners are also eligible. The maximum loan amount per home is \$14,900. HAP’s are forgiven ratably over 5 years. The home owner must meet certain conditions, such as occupancy and income. |
| Home Owner Assistance Program (HOAP) | Assists low-income homeowners in rehabilitating their homes to meet local housing standards and codes. Maximum assistance is \$5,000 for the building itself and \$20,000 for the rehabilitation costs. The first \$5,000 is in the form of a grant which is forgiven ratably over a 5 year time period. The remaining balance may be in the form of a mortgage with repayments made at low to no interest over the course of from 5 to 20 years or, if the ability to repay does not exist, it may be deferred and is then forgiven ratably over a 10 year time period. The decision on how that remaining balance is handled is based on a review of the best method to ensure the home is affordable to the homeowner. The property must be owner-occupied to qualify. |
| Tenant Assistance Rehabilitation Program (TARP) | Assisted with the provision of affordable rental units. Monies for the project were provided through TARP, but also by the landlord. The TARP program ceased with Program Year 33. TARP loans are forgiven ratably over a 5 to 15 year time period, the period being dependent on the amount of the loan. |
| Housing Trust Fund (HTF) | Represents monies administered by ACDA on behalf of the NYS Housing Trust Fund program where non-profit entities provide housing opportunities for low to moderate income households. HTF funds have not been available through ACDA in several years. |
| Arbor Hill Home Improvement Program (AHIP), now known as Neighborhood Strategy Area Home Improvement Program (NSAHIP) | Is a non-Federally funded program where \$300,000 is being provided to ACDA from the NYS Affordable Housing Corporation as a one-time award. The award was originally specific to the Arbor Hill area within the City of Albany, however, ACDA received permission to widen the applicable coverage area during 2008. The program is to assist with the acquisition, construction, rehabilitation, or improvement of one to four unit family dwellings which will be owner occupied. |
| Senior Housing Rehabilitation Program (SRP) | SRP is a program started during 2007 to provide low-to-moderate income persons over the age of 62 owning homes in the City of Albany for substantial repair to housing units in order to eliminate conditions that pose a threat to the healthy, safety and welfare of their occupants. Assistance is in the form of a deferred grant to be ratably 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. Maximum assistance is \$5,000. |

For 2007, 28 HAP loans, approximately 46 HOAP loans, 12 TARP loans, and 128 SRP loans, for a total of about 214 loans, all deferred type, representing approximately \$2,160,000, were made. For 2008, 9 HAP loans, 53 HOAP loans, 15 TARP loans, and 44 SRP loans, for a total of approximately \$1,200,000 were made. The only other significant loan made affecting the financial statements is a \$750,000 loan to the Knox Street Limited Partnership for the Knox Street project. As described elsewhere, the Knox Street project is one of the targeted areas identified.

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There are two primary categories of fixed assets: ‘Land and Buildings’ and ‘Equipment’. Included in land and buildings are condominium units used to provide temporary housing for participants of the lead abatement program. Properties are purchased (or received via donation) in order to reclaim substandard neighborhoods and discourage the use of vacant sites for negative activities. The goal is to stabilize the buildings/lots and market them for future use. During that process ACDA maintains the properties to code. 2007 entailed 3 disposals of buildings that had original costs totaling about \$178,000. 2008 had minimal change to land and buildings.

The total of equipment is immaterial to the financial statements taken as a whole. During 2007 ACDA did purchase fiber optics for 200 Henry Johnson Boulevard for \$26,500 in order to allow increased ease of telecommunications. No significant changes took place with equipment during 2008.

A status assessment is made at year end for each of the entitlement grants as to if the Federal government would owe ACDA entitlement monies for expenditures incurred, but not yet reimbursed by the grant or if ACDA would owe monies back as monies received exceed expenditures. This is then recorded as either due from or due to Federal government.

Accounts payable and accrued expenses represent balances for unpaid expenditures. Accounts payable represent bills that have been received by ACDA but not paid by 12/31. Accrued expenses represent the amounts expected to be paid for expenditures which were incurred during the financial statement period, but for which no bill was received in time to be included in accounts payable. Accrued expenses primarily relate to sub-recipients who are allowed to submit periodic vouchers to claim monies awarded to them. As of 12/31/08, approximately \$100,000 of the accrued expenses relate to costs for demolitions that occurred during 2008 yet were not billed until 2009.

With respect to the analysis of the revenue and expense analysis for the years ended 2007 and 2008, there certain items can be further identified in this Management Discussion and Analysis to provide an increased understanding for the users of the financial statements. This information should be taken in conjunction with the information provided previously about the mortgage loan activity running through ACDA.

Program income is income that ACDA generates outside the entitlement monies and which can then be utilized to further the mission of ACDA. While there are some smaller sources of program income, the primary sources consist of repayments of mortgage loans and rental income from the rental of ACDA owned properties. The repayment of mortgage loans consists of two main sources. The first is scheduled repayment on loans serviced through the Bank of America as described previously. The second source for repayments is when ACDA is able to collect on mortgages that are out of compliance. In those cases, for example, when someone has gone through a homeownership program and moves from the site prior to the full pro-ration of the grant, collection actions are taken to recover the remaining balance due (and thus not ‘earned’ through compliance). ACDA actively checks the compliance of mortgagees and vigorously pursues legal action when a non-compliant individual fails to repay a balance in a timely manner.

The expenditures of ACDA are based on a budget that is approved by the City of Albany Common Council on an annual basis. ACDA does a zero-based budget whereby expected income is fully expended. Typically approximately 85% of expenditures are for program related purposes. ACDA management’s goal is to maximize the amount of expenditures on programs. Significant changes to individual expenditure line items during 2007 and 2008 consist of the following:

- Lead Paint Abatement program expenditures decreased in 2008 from 2007. As noted previously, this primarily relates to a decrease in the overall use of in-house programs and a decrease in the per unit cost of each lead unit.

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- Housing expenditures, which represent the largest line item expenditure, had increased in 2007 over 2006 by approximately 48%. However in 2008, the housing costs decreased by about 24%. As more fully described elsewhere, this is a product of the programs and their use and depending on economic conditions, the interest in programs will often ebb and flow. 2007 saw the introduction of the Senior Housing Rehabilitation program, which accounted for over \$630,000 of expenditures for 2007. Housing related program changes were outlined previously in this Management Discussion and Analysis. Other items that relate to the changes are:
 - Demolition expenditures increased about 74% in 2008 over 2007. This is a product of the demolition needs within the low-to-moderate income areas within the City of Albany at any given time. The City of Albany is making a concerted effort to improve conditions in the low to moderate income areas and this correlates to an increased need for demolitions.
 - CHDO expenditures decreased in 2008 by approximately \$140,000. CHDO expenditures fluctuate based on the projects the CHDO's are working on.
 - Housing expenditures also includes the funding for the Park South project which was new for 2007 and did continue for 2008.
- Public Service expenditures are budgeted as based on a HUD imposed cap each year. Since both Program Year 33 and Year 34 saw overall decreases in entitlement funding, funding allotted to public service projects decreased correspondingly.
- Public Improvement costs during 2007 were particularly high. In 2007 a one-time type of payment related to the Henry Johnson Park was made.
- The Housing Improvement Program, originally known as AHHIP (Arbor Hill Improvement Program) and now known as Neighborhood Strategy Areas Home Improvement Program (NSAHIP) began in 2007. ACDA received approval from the granting agency to widen the coverage area for the program. As a result, the monies were able to be spent on more projects in 2008 then in 2007 creating three times the expenditures of 2008 over 2007.
- Community Revitalization costs were incurred in 2007 as fully related to the making of the Henry Johnson Park (see also Public Improvements). As a single project, there were no further costs in 2008.
- The primary increase in Economic Development costs for 2007 over 2006 related to costs for the rehabilitation of a building to house a SEFCU branch in the South End of Albany. As a single project, these costs did not recur in 2008.

Administration costs are a direct reflection, for the most part, on the programs being offered and the overall entitlement. As funding decreases, the administrative costs associated with administering the programs decrease to an extent as well.

Analysis of Balances and Transactions of Individual Funds

ACDA has primarily general funds. Refer to the Financial Statements for the balances of the accounts at year end and for the activity for 2007 and 2008. As described more fully elsewhere in the Management Discussion and Analysis, the Special fund primarily consists of activity related to the ADAP program. Additionally, awards made several years ago through the NYS Housing Trust Fund are considered Special fund activity. Because of the limited number of individual funds, the analysis has been detailed fully in the Financial Analysis section of this report.

Analysis of the Budget

As described elsewhere in this Management Discussion and Analysis, ACDA financial statements are on the calendar year basis. The program year that ACDA operates on with respect to Federal revenues is a fiscal year that ends each May 31. Because ACDA is obtaining primarily Federal funds and needs to allocate those funds out for the various programs and services it funds, the budget is maintained on the program year (fiscal year). The budget is based on the amount the Federal government awards ACDA

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(which is the majority of all revenue received) and other estimates that are immaterial to revenue as a whole.

The Lead Paint Abatement Program goes through a separate application process. A portion of the application includes a budget for the funding being requested. This budget is based on historical figures for what it costs to make a typical home lead safe and the costs associated with housing the families during the process as well as the operational and administrative costs. Actual expenditures are based on the federally approved budget.

The budget process begins several months prior to the beginning of each program year, however, it is based on the entitlement amounts as announced by the Federal government. Once the amount of funding is known, the allocations of how that funding will be used are determined. This determination is the result of ensuring the Five Year Consolidated Plan goals and objectives are being met. Leadership of the City of Albany and the Agency are involved in the budget process to ensure the ‘big picture’ for the low-to-moderate income areas of the City comes together effectively. ACDA managers of the programs are notified how much their program(s) will receive and plan and monitor accordingly. For sub-recipients, a Request for Proposal (RFP) is issued annually. Organizations and groups submit applications for the RFP which are reviewed by a team of ACDA and citizen reviewers to determine which are most worthy of receiving funding and how much funding should be awarded to each of the successful applicants. Once a full determination of budget amounts by program/recipient is made, public notices and hearings take place and the Albany Common Council and Mayor review the budget. Ultimately the Albany Common Council adopts the budget. Reimbursements for expenditures made once the award amount is provided by HUD but prior to actual notice of funds availability from HUD are held until the funds availability notice arrives.

As noted previously, ACDA budgets entitlement funds on a break even basis whereby all monies received are budgeted to be spent.

As noted elsewhere, for the most part ACDA is not able to draw down money on its grants without specific expenditures having been incurred. Exceptions to this include that an initial portion of lead program funding can be drawn down at the beginning of the program period as ‘seed money’ to fund expenses and the AHIP (now known as Neighborhood Strategy Areas) program which allows ACDA to draw down a portion of the overall grant to fund ongoing activities. It should be noted that there are some timing differences that mean the money may still be held at HUD or ACDA at year end; however, it is fully allocated to programs and the associated administration of those programs. Reimbursements for expenditures are typically made within a few business days to a week from the time the expenditure is approved for payment. Sub-recipients voucher for reimbursement no less than twice per year and their final voucher is due within 30 days of the close of the Program Year (by June 30).

There are times that an initial budget exceeds the actual need for funds. In these cases, the funds are ‘recaptured’ which is the process of making final calculations of what was paid and due for a program or to a sub-recipient and determining if there are excess funds that were allocated in the budget that can be used for other program purposes. For example, during 2007, ACDA was able to allocate additional funds for the SRP program and use funds originally allocated for other programs that were not experiencing anticipated use. Any changes within the budget fit within the Annual Plan and thus the Five Year Consolidated Plan.

Sub-recipient monitoring takes place to ensure that goals for projects are being accomplished. In cases where a sub-recipient does not meet their goals, a portion of the initial awarded funding will be recaptured. As with all recaptured monies, these allocations will be re-programmed for an allowable purpose.

Other than the re-programming of funds as explained, there were no significant changes to the budget during the year 2007 or 2008.

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Capital Asset Activity and Long-term Debt Activity

As described in the analysis of financial statements section, there was insignificant activity with respect to capital assets during both 2007 and 2008. That section provided the specifics of the most significant changes within capital assets.

No additional long-term debt was incurred by ACDA during 2007 or 2008.

Infrastructure Assets

ACDA has no infrastructure assets.

Currently Known Facts, Decisions, and Conditions

The HUD entitlements for Program Year 35 will be:

- \$3,706,672 for CDBG
- \$1,393,675 for HOME
- \$163,354 for ESG
- \$471,430 for HOPWA

As related to Federal stimulus monies, ACDA has also been awarded \$996,000 of CDBG-R monies. This will be considered a substantial amendment to the entitlement and as such, will go through the public comment process as like all other CDBG monies. These monies will be allocated using the CDBG guidelines.

\$1,523,772 of Homeless Prevention and Rapid Re-housing monies have also been awarded to ACDA. These monies are also a result of the Federal stimulus program. How these monies will be specifically expended will go through the substantial amendment process; however, the goal is to assist the homeless and provide more stable long-term housing for the homeless population. ACDA has up to three years to spend these monies.

ACDA was the successful applicant of a Neighborhood Stabilization Program grant. ACDA was awarded approximately \$4.9 million as part of the Economic Recovery Act of 2008. These monies are Federal HUD monies flowing through the states. The purpose of this grant is to purchase and rehabilitate properties in bank foreclosure which are located in zip codes affected by high foreclosure rates.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
STATEMENTS OF NET ASSETS
December 31, 2008 and 2007

| | <u>2008</u> | <u>2007</u> |
|--|----------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 723,621 | \$ 1,468,055 |
| Cash, whose use is limited | 104,913 | 103,043 |
| Mortgage loans receivable, net of allowance for loan losses of \$2,488,049 in 2008 and \$3,105,497 in 2007 | 14,082,907 | 14,707,206 |
| Due from federal government | 979,481 | 668,325 |
| Capital assets, net of depreciation | 2,336,083 | 2,416,086 |
| Other assets | 84,635 | 136,981 |
| Total assets | <u>\$ 18,311,640</u> | <u>\$ 19,499,696</u> |
| LIABILITIES AND FUND NET ASSETS | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 737,005 | \$ 555,907 |
| Long-term obligations | 2,020,288 | 2,197,984 |
| Deferred revenues | 13,024,911 | 12,904,812 |
| Due to New York State Housing Trust Fund | 870,785 | 984,072 |
| Due to federal government | 127,392 | 91,719 |
| Due to the City of Albany | 532,607 | 575,650 |
| Other liabilities | 49,084 | 150,804 |
| Total liabilities | <u>17,362,072</u> | <u>17,460,948</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 697,251 | 662,146 |
| Unrestricted | 252,317 | 1,376,602 |
| Total net assets | <u>949,568</u> | <u>2,038,748</u> |
| Total liabilities and net assets | <u>\$ 18,311,640</u> | <u>\$ 19,499,696</u> |

See notes to financial statements.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
STATEMENTS OF ACTIVITIES
December 31, 2008 and 2007

| | <u>Governmental Activities</u> | | | <u>2008</u> | <u>2007</u> |
|---|--------------------------------|-----------------------------|-------------------------|-----------------------|-----------------------|
| | <u>Expenses</u> | <u>Program Revenues</u> | | | |
| | | <u>Charges for Services</u> | <u>Operating Grants</u> | | |
| Lead paint abatement | \$ 1,336,084 | \$ - | \$ 1,336,084 | \$ - | \$ - |
| Housing | 3,365,294 | - | - | (3,365,294) | (3,688,484) |
| Homestore | - | - | - | - | (44,767) |
| Public service | 543,621 | - | - | (543,621) | (559,184) |
| Public service - neighborhood revitalization | 40,104 | - | - | (40,104) | (36,198) |
| Housing direct delivery | 1,274,702 | - | - | (1,274,702) | (1,230,383) |
| Economic development | 249,580 | - | - | (249,580) | (299,954) |
| Homeless | 250,290 | - | - | (250,290) | (225,015) |
| Public facilities | 33,112 | - | - | (33,112) | (59,932) |
| Public improvements | 217,025 | - | - | (217,025) | (435,391) |
| Administration | 679,567 | - | - | (679,567) | (837,441) |
| Environmental restoration | 34,773 | - | - | (34,773) | (312,522) |
| Interest expense | 102,315 | - | - | (102,315) | (95,795) |
| Depreciation | 91,326 | - | - | (91,326) | (105,893) |
| | <u>\$ 8,217,793</u> | <u>\$ -</u> | <u>\$ 1,336,084</u> | <u>\$ (6,881,709)</u> | <u>\$ (7,930,959)</u> |
| General revenues: | | | | | |
| Grants and entitlements not restricted to specific programs | | | | <u>\$ 5,788,120</u> | \$ 9,188,692 |
| Gain (loss) on disposal of assets | | | | <u>884</u> | (13,419) |
| Interest income | | | | <u>3,525</u> | 7,138 |
| Total general revenues | | | | <u>5,792,529</u> | 9,182,411 |
| Excess (deficiency) of revenues over expenses | | | | <u>(1,089,180)</u> | 1,251,452 |
| Net assets - beginning | | | | <u>2,038,748</u> | 787,296 |
| Net assets - ending | | | | <u>\$ 949,568</u> | \$ 2,038,748 |

See notes to financial statements.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
BALANCE SHEETS - GOVERNMENTAL FUNDS
December 31, 2008 and 2007

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Total Governmental Funds 2008</u> | <u>Total Governmental Funds 2007</u> |
|---|-------------------------|-------------------------------------|--|--|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 641,727 | \$ 81,894 | \$ 723,621 | \$ 1,468,055 |
| Restricted cash | - | 104,913 | 104,913 | 103,043 |
| Mortgage loans receivable, net of allowance for loan losses of \$2,488,049 in 2008 and \$3,105,497 in 2007 | 12,991,130 | 1,091,777 | 14,082,907 | 14,707,206 |
| Due from federal government | 979,481 | - | 979,481 | 668,325 |
| Other assets | 84,635 | - | 84,635 | 136,981 |
| | <u>\$ 14,696,973</u> | <u>\$ 1,278,584</u> | <u>\$ 15,975,557</u> | <u>\$ 17,083,610</u> |
| LIABILITIES AND FUND BALANCE | | | | |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 646,292 | \$ - | \$ 646,292 | \$ 450,711 |
| Deferred revenues | 13,024,911 | - | 13,024,911 | 12,904,812 |
| Due to the City of Albany | 532,607 | - | 532,607 | 575,650 |
| Due to federal government | 127,392 | - | 127,392 | 91,719 |
| Other liabilities | 49,084 | - | 49,084 | 150,804 |
| Due to New York State Housing Trust Fund | - | 870,785 | 870,785 | 984,072 |
| | <u>14,380,286</u> | <u>870,785</u> | <u>15,251,071</u> | <u>15,157,768</u> |
| Total liabilities | | | | |
| Commitments and Contingencies | | | | |
| Fund Balance | | | | |
| Reserved for: | | | | |
| Downpayment Assistance Program | - | 100,000 | 100,000 | 100,000 |
| Unreserved | 316,687 | 307,799 | 624,486 | 1,825,842 |
| | <u>316,687</u> | <u>407,799</u> | <u>724,486</u> | <u>1,925,842</u> |
| Total fund balance | <u>316,687</u> | <u>407,799</u> | <u>724,486</u> | <u>1,925,842</u> |
| Total liabilities and fund balance | <u>\$ 14,696,973</u> | <u>\$ 1,278,584</u> | | |
| Amounts reported for governmental activities in the statement of net assets are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | 2,336,083 | 2,416,086 |
| Non-current liabilities are not due and payable currently and, therefore, are not reported in the funds. | | | (90,713) | (105,196) |
| Long-term obligations are not due and payable currently and, therefore, are not reported in the funds. | | | (2,020,288) | (2,197,984) |
| Net assets of governmental activities | | | <u>\$ 949,568</u> | <u>\$ 2,038,748</u> |

See notes to financial statements.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
December 31, 2008 and 2007

| | <u>General Fund</u> | <u>Special Revenue Fund</u> | <u>Total Governmental Funds 2008</u> | <u>Total Governmental Funds 2007</u> |
|--|-------------------------|-------------------------------------|--|--|
| REVENUES | | | | |
| Grant income | \$ 6,465,645 | \$ - | \$ 6,465,645 | \$ 10,323,382 |
| Program income | 665,258 | 3,525 | 668,783 | 1,090,043 |
| Other | - | - | - | - |
| Total revenues | <u>7,130,903</u> | <u>3,525</u> | <u>7,134,428</u> | <u>11,413,425</u> |
| EXPENDITURES | | | | |
| Grant programs: | | | | |
| Lead Paint Abatement Program | 1,336,084 | - | 1,336,084 | 2,085,362 |
| Housing | 3,365,294 | - | 3,365,294 | 3,688,484 |
| Homestore | - | - | - | 44,767 |
| Public service | 543,621 | - | 543,621 | 559,184 |
| Public service - neighborhood revitalization | 40,104 | - | 40,104 | 36,198 |
| Housing direct delivery | 1,274,702 | - | 1,274,702 | 1,230,383 |
| Economic development | 249,580 | - | 249,580 | 299,954 |
| Homeless | 250,290 | - | 250,290 | 225,015 |
| Public facilities | 33,112 | - | 33,112 | 59,932 |
| Public improvements | 217,025 | - | 217,025 | 435,391 |
| Environmental restoration | 34,773 | - | 34,773 | 312,522 |
| Debt Service | 204,683 | 75,328 | 280,011 | 263,105 |
| Administration | 711,188 | - | 711,188 | 766,803 |
| Total expenditures | <u>8,260,456</u> | <u>75,328</u> | <u>8,335,784</u> | <u>10,007,100</u> |
| Excess of expenditures over revenues | (1,129,553) | (71,803) | (1,201,356) | 1,406,325 |
| Beginning fund balance | 1,446,240 | 479,602 | 1,925,842 | 519,517 |
| Ending fund balance | <u>\$ 316,687</u> | <u>\$ 407,799</u> | <u>\$ 724,486</u> | <u>\$ 1,925,842</u> |

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

Net change in fund balances - total governmental funds \$ (1,201,356) \$ 1,406,325

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.

| | | | |
|----------------------|----------|----------|----------|
| Capital outlays | 17,138 | | |
| Depreciation expense | (91,326) | (74,188) | (71,335) |

| | | | |
|--|--|---------|-----------|
| Governmental funds report proceeds received from sale of assets as revenue | | (6,699) | (132,233) |
|--|--|---------|-----------|

| | | | |
|---|--|-----|----------|
| Governmental funds do not report gains (losses) on disposals of fixed assets. | | 884 | (13,419) |
|---|--|-----|----------|

| | | | |
|--|--|--------|-----------|
| Governmental funds do not report non-current liabilities | | 14,483 | (105,196) |
|--|--|--------|-----------|

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.

| | | | |
|--------------------------------------|--|---------|---------|
| Principal payments on long-term debt | | 177,696 | 167,310 |
|--------------------------------------|--|---------|---------|

| | | | |
|---|--|-----------------------|---------------------|
| Change in net assets of governmental activities | | <u>\$ (1,089,180)</u> | <u>\$ 1,251,452</u> |
|---|--|-----------------------|---------------------|

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Organization

The Albany Community Development Agency (the “Agency”) is a Public Benefit corporation established by the City of Albany (the “City”) and governed by a seven member Board of Directors appointed by the Mayor of the City. 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) Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – Management’s Discussion and Analysis for State and Local Government’s: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Statement No. 34, as amended by Statement No. 37 and Statement No. 38, establishes standards for external reporting for all state and local government entities, which include a statement of net assets and a statement of activities. It requires classification of fund equity into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition of these assets reduce this category.

Unrestricted Net Assets – This category represents the net assets of the Agency, which are not restricted for any project or other purpose.

Restricted Net Assets – This category represents funds restricted by the funding source or law. The Agency has no restricted net assets at December 31, 2008.

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 Assets, 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 assets are reported in two parts – invested in capital assets and unrestricted net assets.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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 assets 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.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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.

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.

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 deferred 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 \$2,488,000 and \$3,105,000 at December 31, 2008 and 2007, 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.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market 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 |

Deferred Revenue

Deferred 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. When loan payments are received, revenue is recognized to the extent of principal received. When grant funds are reloaned, a corresponding expenditure is recorded. When the allowance for loan losses is increased, a corresponding decrease in the amount of deferred 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.

Reclassification

Certain 2007 amounts have been reclassified to conform to current year presentation.

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

In June 2004, GASB issued Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the recognition, measurement, and display of OPEB (retiree health insurance) expenses and related liabilities and note disclosures. The City, and therefore the Agency (as a blended component unit of the City), was required to implement this standard for the year ending December 31, 2007.

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 GASB Statement No. 45, it included the OPEB liability and related expenses for all City employees working at the Agency in the City's own financial statements. Therefore, no accrual for the Agency's OPEB liability and expense has been included in these financial statements.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008, the carrying amounts of the Agency's deposits were \$641,727 and \$186,807 (\$1,355,663 and \$215,436 at December 31, 2007) for the General and Special Revenue Funds, respectively. All deposits in excess of FDIC limits, except for money market funds totaling \$81,893 are adequately collateralized at December 31, 2008.

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 deferred 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 deferred 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.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 3 — MORTGAGE LOANS RECEIVABLE, NET (Continued)

The balance of mortgage loans receivable, net of the related allowance, is comprised of the following at December 31, 2008 and 2007:

| <u>Program</u> | <u>December 31,</u> | |
|---|----------------------|----------------------|
| | <u>2008</u> | <u>2007</u> |
| HUD, net of allowance | \$ 6,716,343 | \$ 6,437,295 |
| HUD, forgivable grant loans, net of allowance | 6,495,779 | 7,285,839 |
| NYSHTFC, net of allowance | 870,785 | 984,072 |
| | <u>\$ 14,082,907</u> | <u>\$ 14,707,206</u> |

NOTE 4 — DUE FROM FEDERAL GOVERNMENT

Due from federal government represents grant-eligible expenses incurred by the Agency through December 31, 2008 that have yet to be reimbursed by applicable federal grant funding programs.

NOTE 5 — CAPITAL ASSETS

Property and equipment is comprised of the following:

| | <u>Balance</u> <u>December 31,</u> <u>2007</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance</u> <u>December 31,</u> <u>2008</u> |
|---|--|------------------|-------------------|--|
| Land | \$ 187,763 | \$ - | \$ (1) | \$ 187,762 |
| Furniture and equipment | 227,059 | 6,338 | - | 233,397 |
| Buildings | 2,589,143 | 10,800 | (5,817) | 2,594,126 |
| | 3,003,965 | 17,138 | (5,818) | 3,015,285 |
| Less accumulated depreciation - furniture and equipment | 138,573 | 21,210 | - | 159,783 |
| Less accumulated depreciation - buildings | 449,306 | 70,116 | (3) | 519,419 |
| Net property and equipment | <u>\$ 2,416,086</u> | <u>\$ 91,326</u> | <u>\$ (5,815)</u> | <u>\$ 2,336,083</u> |

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, 2008 and 2007.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

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, 2008:

| | <u>December 31,</u> <u>2007</u> | <u>Increases</u> | <u>Decreases</u> | <u>December 31,</u> <u>2008</u> |
|----------------------------------|------------------------------------|------------------|---------------------|------------------------------------|
| Bond payable (A) | \$ 344,044 | \$ - | \$ (62,588) | \$ 281,456 |
| Note payable (B) | 100,000 | - | - | 100,000 |
| Capitalized lease obligation (C) | 1,350,000 | - | (90,000) | 1,260,000 |
| Note payable (D) | 231,000 | - | (18,000) | 213,000 |
| Note payable (E) | 172,940 | - | (7,108) | 165,832 |
| | <u>\$ 2,197,984</u> | <u>\$ -</u> | <u>\$ (177,696)</u> | <u>\$ 2,020,288</u> |

- (A) During 2003 and 2002, the Agency issued \$500,000 and \$200,000, respectively, in General Obligation Bonds. The 2002 bonds (originally \$200,000) were repaid by ACDA in 2005, leaving only the 2003 bonds (originally \$500,000) outstanding at December 31, 2008 and 2007. The interest rate on the 2002 bonds was 6.14% and the interest rate on the 2003 bonds is 4.07%. All of 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 Albany Local Development Corporation ("ALDC") 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 Albany Local Development Corporation through 2018. The interest portion of future minimum lease payments is \$396,176 and the net present value of the lease payments at December 31, 2008 is \$1,260,000.
- (D) As part of the capitalized lease obligation, described in (C) above, the Agency executed a note payable to ALDC 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 the ALDC through 2018.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO FINANCIAL STATEMENTS
December 31, 2008

NOTE 7 — LONG-TERM OBLIGATIONS (Continued)

(E) Note payable from ALDC 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%.

A summary of future minimum debt payments is as follows at December 31, 2008:

| | <u>Notes</u> | <u>Bonds</u> | <u>Capitalized Lease Obligations</u> | <u>Total Principal</u> | <u>Total Interest</u> | <u>Total Debt Service</u> |
|-----------|-------------------|-------------------|--|----------------------------|---------------------------|-----------------------------------|
| 2009 | \$ 26,939 | \$ - | \$ 95,000 | \$ 121,939 | \$ 100,257 | \$ 222,196 |
| 2010 | 27,240 | - | 100,000 | 127,240 | 90,819 | 218,059 |
| 2011 | 28,597 | - | 110,000 | 138,597 | 80,732 | 219,329 |
| 2012 | 28,970 | - | 115,000 | 143,970 | 69,841 | 213,811 |
| 2013 | 130,358 | 281,456 | 120,000 | 531,814 | 58,546 | 590,360 |
| 2014-2018 | 167,238 | - | 720,000 | 887,238 | 148,078 | 1,035,316 |
| 2019-2023 | 65,818 | - | - | 65,818 | 8,137 | 73,955 |
| 2024 | 3,672 | - | - | 3,672 | 26 | 3,698 |
| | <u>\$ 478,832</u> | <u>\$ 281,456</u> | <u>\$ 1,260,000</u> | <u>\$ 2,020,288</u> | <u>\$ 556,436</u> | <u>\$ 2,576,724</u> |

NOTE 8 — COMMITMENTS AND CONTINGENCIES

Operating Lease

The Agency has also entered into an operating lease at a facility located at 175 Central Avenue/184 Sherman Street in Albany. The lease has a ten year term and requires the Agency to remit monthly lease payments of approximately \$5,431. The lease commenced July 1, 2000.

A summary of ACDA's future minimum lease payments is as follows at December 31, 2008:

| | |
|-------------------------------------|------------------|
| 2009 | \$ 65,169 |
| 2010 | <u>32,584</u> |
| Total future minimum lease payments | <u>\$ 97,753</u> |

Federal and State Grant Funding

The Agency receives a major portion of its annual revenues through Federal and New York State grants. Although not anticipated by management, 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.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2008

| <u>Federal Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Federal Expenditures</u> |
|--|------------------------------------|---------------------------------|
| U.S. Department of Housing and Urban Development | | |
| <i>Direct Programs:</i> | | |
| Community Development Block Grants/Entitlement Grants | 14.218 | \$ 3,876,680 * |
| Emergency Shelter Grant Program | 14.231 | 171,180 |
| HOME Investment Partnerships Program | 14.239 | 1,085,598 |
| Housing Opportunities for Persons with AIDS | 14.241 | 481,241 |
| Brownfield Pilots Cooperative Agreements | 66.811 | 16,891 |
| Pass-Through NYS Division of Housing and Community Renewal | | |
| Lead-Based Paint Hazard Control in Privately-Owned Housing | 14.900 | <u>1,321,003</u> |
| Total U.S. Department of Housing and Urban Development | | <u><u>\$ 6,952,593</u></u> |

*DENOTES MAJOR PROGRAM

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
December 31, 2008

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.

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, i.e., the Agency's share of certain program costs, are not included in the Schedule of Expenditures of Federal Awards.

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 the financial statements of governmental activities and each major fund of the Albany Community Development Agency (the Agency) as of and for the year ended December 31, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated July 20, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of the Agency's compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters, 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*.

This report is intended solely for the information and use of the Board of Directors, the Agency's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Albany, New York
July 20, 2009

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Board of Directors
Albany Community Development Agency

Compliance

We have audited the compliance of the Albany Community Development Agency (the Agency) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major programs for the year ended December 31, 2008. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

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. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Agency's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that non-compliance with a type of requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, the Agency's management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Albany, New York
July 20, 2009

ALBANY COMMUNITY DEVELOPMENT AGENCY
 (A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 December 31, 2008

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

| | |
|--|-------------|
| A. Type of auditor’s report issued: | Unqualified |
| B. Internal Control Over Financial Reporting | |
| Material weaknesses: | No |
| Significant deficiency: | No |
| C. Noncompliance Material to Financial Statements: | No |

FEDERAL AWARDS

| | |
|---|-------------|
| A. Internal Control Over Major Programs | |
| Material weaknesses: | No |
| Significant deficiency: | No |
| B. Type of auditor’s report issued on compliance for major programs: | Unqualified |
| C. Audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133: | No |

| | |
|--|---------------------------|
| D. Major programs | <u>CFDA Number</u> |
| U.S. Department of Housing and Urban Development Community Development Block Grants | 14.218 |
| 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

None reported.

ALBANY COMMUNITY DEVELOPMENT AGENCY
(A BLENDED COMPONENT UNIT OF THE CITY OF ALBANY)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
December 31, 2008

Status of Prior Year Findings:

Item 2007-1

Condition: The New York State Public Authority Accountability Act (the Act) currently requires the Agency to comply with applicable provisions of the Act. The Agency is currently not in compliance with the applicable requirements of the Act.

Recommendation: We recommend that the Agency comply with the applicable requirements of the Act.

Agency Response: Compliance with the New York State Public Authority Act (the Act) with respect to the Agency was unclear. While the Agency was formed as a public benefit corporation originally, it is a blended component unit of the City of Albany (the City) and thus often indistinguishable from other departments within the City. As such, the Agency has sought counsel on the specific portions of the Act that must be complied with.

Current Audit Status: The Agency intends to comply with the applicable requirements of the Act. The Agency designed and began an implementation process. Specifically, appropriate members of the Agency attended training on how to use the reporting system the Act requires be used and has implemented the use of the system. Additionally, policies required by the Act have been drafted and are in the internal approval process and more formalized board meeting minutes are currently being taken. The Agency is committed to full compliance of applicable requirements of the Act.