ALBANY PORT
DISTRICT COMMISSION

PORT OF ALBANY

AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years ended December 31, 2011 and 2010

UHY LLP
Certified Public Accountants

ALBANY PORT DISTRICT COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The American Recovery and Reinvestment Act ("ARRA") played a significant role in continuing the modernization of the Port of Albany in 2011. The $5 million in ARRA stimulus funding provided to the Port completed the installation of over 800 feet of new wharf and associated rail infrastructure. Completion of this project, which replaced the original wood dock installed in the 1920's, doubled the ship docking and cargo handling capability on the Albany side of the Port.

In October 2011, federal, state and local officials "cut the ribbon" to celebrate the completion of the new wharf project. This new concrete wharf system is built to withstand 1,200 pounds per foot and is reinforced with steel piles. It also includes an extension of approximately 300 feet of new rail lines to expedite the handling of large cargo.

This work would never have been accomplished without the strong support of Albany Mayor Gerald Jennings. Under his leadership, the Albany Port District Commission received two grants totaling $11.5 million ($6.5 million from New York State and $5.0 million from Federal Stimulus Funding). Additionally, the Port received support from many strong partners, including Governor Cuomo's Office, Congressman Tonko's Office, Senator Breslin, Assemblyman Canestrari and the New York State Departments of Transportation and Labor. Finally, the ARRA funded wharf project was completed on time and on budget due the contributions of the contractors and organized labor involved in the work.

Following this MD&A are the basic financial statements together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. In addition to the notes, this section also presents certain supplemental information that will assist in understanding the Commission's financial statements.

A comparative summary of maritime activity follows:

	2009	2010	2011
Ships	54	49	42
Barges-Heavy Lift	4	9	11
Total	58	58	53
Tonnage:			
Inbound	34,357	28,579	37,430
Outbound	217,388	423,339	267,591
Total	251,745	451,918	305,021
Longshoremen Man Hours	35,604	29,565	41,020

Financial Operation Highlights

Total fund equity increased $1,777,096 for 2011 compared with a $6,200,039 increase from the prior year.

The $1,777,096 increase for 2011 can primarily be attributed to the following:

- Capital Contributions $2,275,244
- Decrease in Operating Revenues ($153,637)
- Increase in Operating Expenses ($132,720)
- Decrease in Other Revenue ($180,000)

Financial Position Summary

Net assets may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by $31,992,204 at December 31, 2011, an increase of $1,777,096 from December 31, 2010. A three-year comparison is shown below:

	2009	2010	2011
Assets			
Current and other assets	$ 4,264,868	$ 4,433,493	$ 4,246,253
Capital assets	22,916,849	28,851,163	30,757,219
Total assets	$ 27,181,717	$ 33,284,656	$ 35,003,472
Liabilities			
Current and other liabilities	$ 1,107,672	$ 1,072,507	$ 946,874
Long-term liabilities	2,058,976	1,997,041	2,064,394
	$ 3,166,648	$ 3,069,548	$ 3,011,268
Net Assets			
Invested in capital assets, net of related debt	$ 20,977,648	$ 27,278,420	$ 29,453,694
Unrestricted	3,037,421	2,936,688	2,538,510
Total net assets	$ 24,015,069	$ 30,215,108	$ 31,992,204

Future Operations

- Governor Cuomo announced an $11,500,000 New York State grant for the revitalization of the Rensselaer Wharf, which will double the capacity of the Port on the Rensselaer side. The Commission anticipates that engineering work will begin mid-year 2012 with construction to start late in 2012 or early in 2013. The Port looks to continue its role as an economic development engine on both sides of the Hudson River.
- The Commission plans to complete the security upgrade project which began in 2010 funded by a grant from the Department of Homeland Security. The grant provides for up to $735,000 in federal funds for 75% of the total project cost, estimated to be approximately $980,000.
- The Commission plans to complete a geographic information system (GIS) for its real property during 2012 to assist in the management of real property assets.
- The Commission plans to issue a Request for Proposal (RFP) for 18 acres within the Port to establish a maritime related business.
- The Commission's 2001 purchase of a new $2.4 million mobile harbor crane, the largest of its type in New York State continues to enhance revenues. The debt associated with this vital Port asset was paid-off in 2011 and it is now owned solely by the Port.

Financial Statements

The Commission's financial statements are prepared on an accrual basis in accordance with U.S. generally accepted accounting principles promulgated by the Government Accounting Standards Board (GASB). The Commission recognizes revenue when earned, not when received. Expenses are recognized when incurred, not when they are paid. Capital assets are capitalized and (except land) are depreciated over their useful lives.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Chief Financial Officer, thurley@portofalbany.us.

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Albany Port District Commission

We have audited the accompanying balance sheets of Albany Port District Commission (a component reporting unit of the City of Albany) as of December 31, 2011 and 2010, and the related statements of revenues and expenses and changes in fund equity, and cash flows for the years then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Albany Port District Commission as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years 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 a report dated March 20, 2012 on our consideration of the Albany Port District Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 3 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the financial statements of the Albany Port District Commission. The Schedules of Payroll and Related Costs and Other Operating Expenses on page 20 are presented for purposes of additional analysis and are not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

UHY LLP

Albany, New York
March 20, 2012

ALBANY PORT DISTRICT COMMISSION
BALANCE SHEETS
December 31, 2011 and 2010

	2011	2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 354,753**	$ 1,375,276
Investments	**2,100,589**	2,109,260
Accounts receivable	**1,489,884**	730,448
Other	**265,390**	180,208
Total current assets	**4,210,616**	4,395,192
NET PROPERTY AND EQUIPMENT	**30,757,219**	28,851,163
CASH, SECURITY DEPOSITS	**27,938**	27,886
OTHER	**7,699**	10,415
	$ 35,003,472	$ 33,284,656
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 156,807**	$ 269,226
Deferred revenue	**166,423**	2,883
Accounts payable	**193,710**	408,025
Accrued expenses	**365,296**	319,128
OPEB obligation, current portion	**36,700**	45,359
Total current liabilities	**918,936**	1,044,621
SECURITY DEPOSITS	**27,938**	27,886
LONG-TERM LIABILITIES		
OPEB obligation net of current portion	**917,676**	693,524
Long-term debt, net of current maturities	**1,146,718**	1,303,517
Total long-term liabilities	**2,064,394**	1,997,041
Total liabilities	**3,011,268**	3,069,548
FUND EQUITY		
Invested in capital assets, net of related debt	**29,453,694**	27,278,420
Unrestricted	**2,538,510**	2,936,688
Total fund equity	**31,992,204**	30,215,108
	$ 35,003,472	$ 33,284,656

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND EQUITY
Years ended December 31, 2011 and 2010

	2011	2010
OPERATING REVENUES		
Property rentals	**$ 2,856,182**	$ 2,947,330
Dockage fees	**204,864**	307,799
Wharfage fees	**279,180**	347,320
Stevedore fees	**202,378**	108,717
Crane/equipment rentals	**53,025**	67,200
Security fees	**395,155**	357,236
Cargo storage and other services charges	**117,348**	126,167
Total operating revenues	**4,108,132**	4,261,769
OPERATING EXPENSES		
Payroll and related costs	**1,763,751**	1,727,373
Maintenance expense	**106,602**	75,866
Material handling	**90,684**	71,223
Insurance	**209,865**	205,846
Professional and consulting fees	**246,537**	236,845
Other operating expenses	**497,358**	464,924
Total operating expenses	**2,914,797**	2,782,077
OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS	**1,193,335**	1,479,692
DEPRECIATION AND OTHER ITEMS		
Depreciation and amortization	**(1,304,344)**	(1,264,879)
Waterfront development expenses	**(332,155)**	(314,774)
Other revenue	**-**	180,300
Decrease in fair value of investments	**(5,705)**	-
Interest income	**1,806**	4,488
Interest expense	**(51,085)**	(66,872)
Net depreciation and other items	**(1,691,483)**	(1,461,737)
(DECREASE) INCREASE IN FUND EQUITY BEFORE CAPITAL FUNDING	**(498,148)**	17,955
Capital contributions	**2,275,244**	6,182,084
INCREASE IN FUND EQUITY	**1,777,096**	6,200,039
Total fund equity, beginning of the year	**30,215,108**	24,015,069
Total fund equity, end of year	**$ 31,992,204**	$ 30,215,108

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from rentals	**$ 2,934,831**	$ 2,994,448
Cash received for facility usage	**745,467**	744,749
Cash received from other services	**675,121**	483,403
Cash payments to employees and professionals	**(1,749,527)**	(1,712,656)
Cash payments for materials and maintenance	**(190,852)**	(166,947)
Cash payments for insurance	**(295,047)**	(201,552)
Cash payments for other expenses	**(497,358)**	(469,924)
Net cash provided by operating activities	**1,622,635**	1,671,521
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments for waterfront development	**(332,155)**	(314,774)
Net cash used in noncapital financing activities	**(332,155)**	(314,774)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for capital assets	**(3,480,261)**	(6,974,470)
Cash received from capital grant funding	**1,484,789**	5,970,785
Interest expense	**(51,085)**	(66,872)
Cash payments on long-term debt and other obligations	**(269,218)**	(366,458)
Net cash used in capital and related financing activities	**(2,315,775)**	(1,437,015)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest	**1,806**	4,488
Cash paid for purchase of investments	**(5,177,034)**	(6,333,172)
Cash received from sale of investments	**5,180,000**	6,335,993
Net cash provided by investing activities	**4,772**	7,309
Net decrease in cash	**(1,020,523)**	(72,959)
Cash, beginning of year	**1,375,276**	1,448,235
Cash, end of year	**$ 354,753**	$ 1,375,276
RECONCILIATION OF OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income, before depreciation and other items	**$ 1,193,335**	$ 1,479,692
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in:		
Accounts receivable	**82,847**	(42,052)
Other assets	**(85,182)**	4,294
Accounts payable	**6,434**	(19,858)
Accrued expenses	**46,168**	39,728
Deferred revenue	**163,540**	2,883
OPEB obligation	**215,493**	206,834
Total adjustments	**429,300**	191,829
Net cash provided by operating activities	**$ 1,622,635**	$ 1,671,521

See notes to financial statements.

NOTE 1 — ORGANIZATION AND STATUTORY COMMISSION

The Albany Port District Commission (the Commission) was established in 1925 under Chapter 192 of the Laws of the State of New York. The law, as amended, grants the Commission regulatory powers over the development and operations of the facilities of the Albany Port District. The Commission, a Public Corporation with perpetual existence, has the power to construct, develop and operate Port facilities, including a terminal railroad; to fix fees, rates, rentals and other charges for its facilities; to regulate and supervise the construction and operations of the Port facilities by private enterprise; to issue bonds and notes; and to do all other things necessary to make the Port useful and productive. The Commission also has the right of eminent domain.

The Laws of 1925 provide that the municipalities of Albany and Rensselaer be assessed for the Commission's deficit, if any, which might result from operations and financing. A 1932 reapportionment determination established rates which approximate 88 percent for Albany and 12 percent for Rensselaer. Although rates are subject to change under the provisions of the law, in recent years, there have been no such assessments.

The Commission is a component reporting unit of the City of Albany and, as such, is included in the City's general purpose financial statements.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Commission 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” and GASB Statement No. 37 “Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus.” Statement 34, as amended by Statement 37, establishes standards for external reporting for all state and local government entities. It also requires the 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 component of fund equity consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds, mortgages, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, when applicable, that portion of the debt is included in the same fund equity component as the unspent proceeds.

- *Restricted* – This component of fund equity, when applicable, consists of restrictions placed on fund equity use through external constraints imposed by creditors (such as through debt covenants), by law or regulation, or through enabling legislation. No component of fund equity was restricted at December 31, 2011 and 2010.

- *Unrestricted* – This component of fund equity consists of fund equity that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles for governmental entities, as prescribed by GASB. In accordance with the provisions promulgated by GASB, the Commission has elected not to apply Financial Accounting Standards Board (FASB) pronouncements and interpretations issued after November 1989.

The operations of the Commission are reported as a proprietary fund and, as such, are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. Within this measurement focus, all assets and liabilities associated with operations are included on the balance sheet with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

Cash and Cash Equivalents

The Commission considers all liquid investments with an original maturity of three months or less to be cash equivalents. The Commission's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents and investments. The Commission places cash and temporary cash investments with high quality credit institutions.

Investments

New York State statutes and guidelines, and the Commission's own investment policies, limit the investment of funds to obligations of the U.S. Government and its agencies, certificates of deposit, and obligations of the State of New York. Investments principally include U.S. Government Agency discount obligations with maturities of less than one year. The Commission's investments are managed by an independent investment advisor and are stated in the balance sheets at market value.

Property and Equipment

The Commission's property, equipment, and other facilities are carried at cost and include capital funding (or grant funding) from federal, state and local Governmental entities utilized to acquire, construct, and improve facilities of the Commission. Such capital funding is recorded for amounts derived from capital project grants and other resources which are restricted to facility acquisition or construction. The Commission recognizes capital funding arising from capital project grants when earned (generally when the related capital expenditure is made). Depreciation is computed on the straight-line method based on estimated useful lives of the related assets, including those financed by capital funding grants. A substantial portion of depreciation is attributable to assets purchased with capital funding under various Governmental grants.

The estimated useful lives used in the calculation of depreciation are generally as follows:

Port marine facilities	10 to 40 Years
Furniture and equipment	5 to 10 Years
Transportation equipment	5 to 10 Years

Accrued Employee Benefits

It is the Commission's policy to record employee benefits, including accumulated vacation and sick leave earned, as a liability. Commission employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is reimbursed for such time up to a stated maximum.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue

Deferred revenue consists principally of rents received in advance. In 2011, deferred revenue includes $162,618 received from insurance proceeds as a result of certain damage incurred to the Commission's property. These proceeds will be used to offset the expense when the related repairs are completed.

Operating Revenues

The Commission's operating revenues are principally derived from four sources: property rentals, dockage fees, wharfage fees and security fees. Rental income is earned from tenants leasing buildings and other property owned by the Commission; dockage fees are earned from ships docked at Commission owned facilities; wharfage fees, including stevedore fees, are earned from unloading ships; and security fees are earned by providing security services to tenants. Operating revenues also include equipment rentals, service charges and other fees.

Operating Expenses

Operating expenses consist principally of payroll and related benefit costs, insurance costs, professional and consulting fees, advertising and promotion expenses and utilities.

Waterfront Development Expenses

In 2002, the Commission entered into an operating lease agreement with Albany Local Development Corporation (ALDC) for the use of the Corning Preserve and Hudson River waterfront (see Note 10). All lease payments made to ALDC for the use of this property, in addition to other waterfront related contractual costs incurred by the Commission, are expensed when incurred.

Capital Funding

Capital funding represents grants, generally from federal and state funding sources, which are designated for capital asset acquisition and/or construction.

Income Taxes

The properties and income of the Commission are exempt from all Federal and State income and franchise taxes under the provisions of the enabling Legislation.

Estimates and Judgments

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. Actual results could differ from these estimates.

Reclassifications

Certain 2010 financial statement line items have been reclassified to conform with the current year's presentation.

NOTE 3 — CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following at December 31:

	2011		2010	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash on hand	$ 300	$ 300	$ 300	$ 300
Deposit accounts	354,453	425,933	1,374,976	1,418,531
	$ 354,753	$ 426,233	$ 1,375,276	$ 1,418,831

At December 31, 2011 and 2010, the Commission's deposits were covered by FDIC insurance or otherwise collaterally secured.

NOTE 4 — INVESTMENTS

At December 31, 2011, investments, which are stated on the balance sheets at market value, are comprised of U.S. Government agency obligations, as follows:

Investment	Par Amount	Maturity	Market (Carrying) Value	Cost
Federal Home Loan Mortgage Corporation	$ 460,000	1/3/2012	$ 460,000	$ 459,800
Federal Home Loan Mortgage Corporation	264,000	3/23/2012	265,180	266,173
Federal Farm Credit Bank	150,000	4/4/2012	151,801	152,038
Goldman Sachs Bank (CD)	245,000	4/12/2012	244,855	245,000
Federal National Mortgage Association	240,000	4/20/2012	241,272	242,045
GE Capital Corporation (FDIC GTD)	340,000	6/8/2012	343,121	343,244
Safra National Bank (CD)	245,000	10/5/2012	244,615	244,461
Apple Bank of Savings (CD)	150,000	10/12/2012	149,745	150,000
	$ 2,094,000		$ 2,100,589	$ 2,102,761

At December 31, 2010, investments, which are stated on the balance sheets at market value, were comprised of U.S. Government agency obligations, as follows:

Investment	Par Amount	Maturity	Market (Carrying) Value	Cost
Federal Home Loan Bank	$ 500,000	1/5/2011	$ 500,000	$ 499,655
Federal National Mortgage Association	460,000	3/23/2011	459,899	459,607
Federal National Mortgage Association	250,000	5/6/2011	249,890	248,732
Federal Home Loan Bank	400,000	5/11/2011	399,816	399,645
Federal National Mortgage Association	500,000	06/07//11	499,655	499,667
	$ 2,110,000		$ 2,109,260	$ 2,107,306

NOTE 4 — INVESTMENTS (Continued)

The Commission's investments are categorized in accordance with criteria established by GASB to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Commission or its agent in the Commission's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter parties trust department or agent in the Commission's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter parties, or by its trust department or agent, but not in the Commission's name. All of the Commission's investments at December 31, 2011 and 2010 are categorized as Category 1.

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	December 31 2010	Additions	Deletions	December 31 2011
Port marine facilities	$ 64,263,885	$ 13,853,053	$ -	$ 78,116,938
Transportation, equipment and furniture	809,249	1,500	-	810,749
Construction in process	10,666,269	2,253,229	12,900,098	19,400
Total	75,739,403	16,107,782	12,900,098	78,947,087
Less accumulated depreciation	46,888,240	1,301,628	-	48,189,868
Net property and equipment	$ 28,851,163	$ 14,806,154	$ 12,900,098	$ 30,757,219

Depreciation expense was $1,301,628 and $1,263,705 for the years ended December 31, 2011 and 2010, respectively.

NOTE 6 — LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31 2010	Debt Issued	Debt Payments	December 31 2011
NYS First Instance advances *(A)*	$ 317,709	$ -	$ 80,000	$ 237,709
M&T warehouse obligation *(B)*	1,112,634	-	60,556	1,052,078
KeyBank crane obligation *(C)*	110,516	-	110,516	-
Real Lease capital lease *(D)*	31,884	-	18,146	13,738
	1,572,743	$ -	$ 269,218	1,303,525
Less current maturities	269,226			156,807
	$ 1,303,517			$ 1,146,718

(A) New York State First Instance advances are non-interest bearing advances, authorized by the State pursuant to the provisions of Section 19, Chapter 170 of the Laws of 1967, for construction, reconstruction and rehabilitation of facilities. The terms of the agreement, as approved by the State Division of Budget and the State Legislature, provides for equal annual payments, each in the amount of $80,000, through the year 2013, with a final payment of $77,709 in 2014.

NOTE 6 — LONG-TERM DEBT (Continued)

(B) During 1994, the Commission entered into an agreement with Albany Industrial Development Agency (AIDA) providing for a ground lease of certain real property owned by the Commission. Concurrent with this transaction, AIDA conveyed their rights under the ground lease to the Albany Local Development Corporation (ALDC) and issued, for the benefit of ALDC, Civic Facility Revenue Bonds in the amount of $1,675,000. The net proceeds of the Revenue Bonds were utilized to construct a 70,000 square foot warehouse facility which was subsequently leased to the Commission. The ground lease between the Commission and AIDA, which provided for no rental payments, was to extend over the 30 year term of the revenue bonds. The Commission was obligated under the facility lease to provide for payments, approximating $11,500 monthly (through February 2024), which were to be utilized by ALDC to fund their debt service obligations over the 30 year term of the Revenue Bonds. Upon termination of the ground lease and the project facility lease, and the repayment of the Revenue Bonds, the warehouse facility and related improvements are to be conveyed to the Commission. The Commission recorded this transaction as a capitalized lease obligation with the project facility and the lease obligation both recorded on the Commission's balance sheet.

In 2004, the Commission refinanced this obligation through a mortgage with M&T Bank and, concurrently, defeased the revenue bonds. The terms of the mortgage provide for monthly payments of $8,718, including interest at 4.07% per annum, with 20 year amortization and a 10 year balloon payment. Final maturity is November 2014. The mortgage is secured by the warehouse facility.

(C) During 2001, the Commission acquired a heavy lift crane to improve the loading and unloading of cargo at the Port’s facilities. The crane was partially funded by the U.S. Department of Commerce under a grant in the approximate amount of $806,000. The net cost of the crane (the acquisition cost of approximately $2,366,000, net of governmental grant funding) was funded under a capitalized lease arrangement with Key Bank. The imputed rate under the ten year lease approximated 4.76%. Monthly payments approximating $18,700 were required through June 2011, when the obligation was paid in full. The Commission recorded this transaction as a capitalized lease obligation with the crane and the lease obligation both recorded on the Commission’s balance sheet.

(D) During 2007, the Commission acquired two forklifts to improve the loading and unloading of cargo at the Port’s facilities. The cost of the forklifts was funded under two separate capitalized lease arrangements with Real Lease, Inc. (acquisition cost of both forklifts approximated $84,000). The imputed interest rate under the capital lease agreements approximates 3.3% per annum for each lease. Combined monthly payments approximating $1,600 are required through September 2012. The Commission recorded this transaction as a capitalized lease obligation with the forklifts and the lease obligations both recorded on the Commission’s balance sheet.

NOTE 6 — LONG-TERM DEBT (Continued)

At December 31, 2011, long-term debt maturities were comprised of the following:

Year Ending	Principal	Interest	Total
2012	$ 156,807	$ 41,849	$ 198,656
2013	145,683	38,937	184,620
2014	1,001,035	33,033	1,034,068
	$ 302,489	$ 80,786	$ 383,276

Interest expense, inclusive of interest imputed on capital leases and certain other related costs, was $51,085 and $66,872 for 2011 and 2010, respectively.

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS

Substantially all Albany Port District Commission full-time employees participate in the New York State and Local Employees' Retirement System ("System").

The System is a cost-sharing multiple-employer defined benefit plan administered by the State Comptroller. Plan benefits, including retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries are provided under the provisions of the New York State Retirement and Social Security Law and are guaranteed under the State Constitution. The System issues a financial report that includes financial statements and other information for the System which is available to the public. The financial report may be obtained by writing to the New York State and Local Employees' Retirement System, 110 State Street, Albany, New York 12244.

Employer contributions are actuarially determined by the System. The Commission is required to contribute annually to the System based on a percentage rate of payrolls. The rates, which vary according to the employees' date of hire, include normal, administrative, and supplemental pension contributions and prior service costs. Substantially all Commission payroll is covered by the System. Employees who joined the system after July 27, 1976, and have less than ten years of service or membership are required to contribute 3 percent of their salary. Employee contributions are deducted from their salaries and remitted on a current basis to the System.

Pension related payroll and contribution amounts for the years ended December 31, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Retirement related payroll	$ 711,985	$ 739,670	$ 544,045
Employer Contributions	$ 119,125	$ 111,408	$ 20,025
Employee Contributions	$ 26,789	$ 22,425	$ 17,958

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS

The Commission provides certain health care benefits for retired employees and their covered dependents. Employees of the Commission become eligible for those benefits if they reach normal retirement age while working for the Commission. The Commission recognizes the cost of providing post-retirement health insurance benefits according to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively. This Statement establishes standards for the recognition, measurement, and display of other postemployment benefits (retiree health insurance) expenses and related liabilities and note disclosures.

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Plan Description

The Commission administers its retiree health insurance plan (the Plan) as a single-employer defined benefit other postemployment benefit (OPEB) plan. The Plan provides for continuation of medical insurance benefits for qualifying retirees and their covered dependents and can be amended by action of the Commission. The Plan does not currently issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

Funding Policy

The Commission pays the full cost of eligible retiree health insurance. The Commission currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis, with the possibility of pre-funding additional benefits if so determined by the Commission. The Commission contributed approximately $37,000 and $45,000 for current premiums in 2011 and 2010, respectively. The costs of administering this Plan are paid by the Commission.

Funded Status and Funding Progress

The schedule of funding progress presents multiyear trend information that is useful in determining whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liability. The following table sets forth the actuarial accrued liability and funded status of the Plan as of December 31, 2010, the latest valuation date. Valuations are currently prepared every three years, as required by GASB 45.

	2011	2010
Actuarial Accrued Liability (AAL)		
Currently retired	$ 647,532	$ 647,532
Active employees	1,747,331	1,747,331
Actuarial accrued liability	2,394,863	2,394,863
Actuarial value of plan assets	-	-
Unfunded actuarial accrued liability (UAAL)	$ 2,394,863	$ 2,394,863
Funded ratio	0%	0%
Normal cost	$ 99,280	$ 99,280

The following table summarizes the amortization calculation of the UAAL as of the latest valuation date:

	2011	2010
UAAL	$ 2,394,863	$ 2,394,863
Amortization period (years)	28	28
Amortization discount rate	2.50%	2.50%
Present value factor	21.0	21.0
UAAL amortization amount	$ 114,233	$ 114,233

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost:

	2011	2010
Normal cost	$ 99,280	$ 99,280
Amortization of UAAL	114,233	114,233
ARC	213,513	213,513
Interest on OPEB obligation	13,302	13,302
Adjustment to ARC	25,378	25,378
OPEB expense	$ 252,193	$ 252,193

The following table reconciles the Commission's OPEB obligation at December 31:

	2011	2010
Net OPEB obligation at beginning of year	$ 738,883	$ 532,049
Annual OPEB expense	252,193	252,193
Annual OPEB contributions	(36,700)	(45,359)
Net OPEB obligation at end of year	954,376	738,883
Less: estimated current portion of OPEB obligation	36,700	45,359
Estimated long-term portion of OPEB obligation	$ 917,676	$ 693,524
Percentage of expense contributed	15.0%	18.0%

Trend Information

Year Ended	Beginning OPEB Obligation	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
12/31/2009	$ 356,719	$220,000	$ 44,670	20.0%	$ 532,049
12/31/2010	532,049	252,193	45,359	18.0%	738,883
12/31/2011	738,883	252,193	36,700	14.6%	954,376

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS (Continued)

Actuarial Methods and Assumptions

The projected unit credit actuarial cost method was used to estimate the Commission's OPEB obligation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs (if any) between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The measurement date for the calculation was December 31, 2010 and the discount rate utilized was 2.50%. No salary increases were assumed since benefits are not based on compensation. Health care costs were assumed to increase as follows:

Year	Trend Increase
2011	8%
2012	7%
2013	6%
2014	5%
2015	5%
Thereafter	5%

NOTE 9 — PROPERTY HELD FOR LEASE

The Commission has entered into various operating leases with tenants for the use of space at Port owned buildings, terminals, offices, and other facilities. The approximate minimum future rentals scheduled to be received on operating leases in effect on December 31, 2011 were as follows:

2012	$ 2,326,000
2013	1,686,000
2014	1,228,000
2015	1,109,000
2016	1,007,000
Thereafter	7,708,000
	$ 15,064,000

NOTE 10 — COMMITMENTS AND CONTINGENCIES

Claims and Litigation: The Commission is a defendant in various claims, lawsuits and actions arising in the normal course of operations. In the opinion of the Commission's management, the ultimate amount of any liabilities which may be incurred in connection with the settlement of claims and litigation will not materially affect the Commission's financial condition.

Lease Obligation Relating to Waterfront Development: The Commission is committed to supporting the City of Albany's efforts in developing the Corning Preserve and Hudson River waterfront. In this regard, during 2002, the Albany Industrial Development Agency (AIDA) issued $4,390,000 in Civic Facility Revenue Bonds for the benefit of the Albany Local Development Corporation (ALDC), for construction relating to the Corning Preserve/Hudson Riverfront Development Project. The majority of the net proceeds of the Revenue Bonds were utilized to fund various improvements to the project site for recreational and entertainment uses. Concurrent with the issuance of the bonds, ALDC and the Commission entered into a shared use and lease agreement, under which ALDC leases the project to the Commission for a 30 year lease term. At the end of the lease term, in 2033, the agreement provides that the project improvements are owned by ALDC. Accordingly, all improvements made to the project by the Commission, in excess of available bond proceeds, are expensed when incurred by the Commission as waterfront development expenses.

Under the shared use and lease agreement, which is accounted for as an operating lease by the Commission, the Commission is obligated to fully fund ALDC's obligations relating to the project, including the funding of installment payments sufficient to cover all related bond debt service and certain other contractual improvement and operating expenses. The AIDA/ALDC bonds are 25 year variable rate demand obligations, initially bearing interest at 1.9%, with rates established weekly by a remarketing agent. As such, the Commission's annual lease obligation will likely change on a year-to-year basis and, in an increasing interest rate environment, these changes may be material.

The bonds are secured by a letter of credit issued by Key Bank. Under the letter of credit, any grant proceeds received for the project are required to reduce the outstanding bonds. The letter of credit requires principal debt reduction payments, ranging from $105,000 in 2004 to $285,000 in 2027, thus providing for the full amortization of the bonds by the 2027 maturity date.

Future debt reduction payments are expected as follows:

Year Ending	
2012	$ 145,000
2013	155,000
2014	160,000
2015	165,000
2016	175,000
Thereafter	2,530,000
	$ 3,330,000

The bonds have no prepayment constraints and, as such, holders have the option to redeem bonds at any time. The letter of credit terms, as disclosed above, may also materially impact the Commission's annual lease obligation.

NOTE 10 — COMMITMENTS AND CONTINGENCIES (Continued)

In connection with the issuance of the bonds, ALDC paid $200,000 in costs relating to the transaction. For reimbursement of these costs, the Commission entered into a supplemental lease agreement under which the Commission is required to pay ALDC monthly payments of $2,425, for 120 months, beginning May 2002 and ending April 2012.

During 2011 and 2010, the Commission's total lease cost, project improvement cost, and other operating expenses related to the waterfront development project approximated $332,000 and $315,000, respectively. The 2005 bond principal payment was paid by the federal grant funds described above. The 2009, 2008, 2007 and 2006 bond principal payments were not paid directly by the Commission, but, rather, were funded from the balance of unexpended bond proceeds. In 2010, the final balance of these unexpended bond proceeds, approximating $2,700, was used to offset the Commission's principal payment of $135,000. Because the balance of the unexpended bond proceeds has been reduced to zero, all future principal payments will be funded directly by the Commission.

The Commission's future lease obligations under the shared use and lease agreement and supplemental lease agreement, assuming no changes in the variable bond rate, no bond prepayments, and no receipt of grant funding (events which will likely change over the 30 year term of the lease) will approximate a minimum of $300,000 annually.

Real Estate Easement Revenue: In 2007, the Commission entered into an agreement with a third-party to convey specific easement rights to the third-party. The third-party is seeking to construct a power-generating facility on land adjacent to land owned by the Commission. Construction and operation of the facility required the Commission to convey easements related to certain water, gas and electric transmission lines to the third-party. In exchange for conveying these easement rights, as outlined in the agreement, the Commission received a payment of $350,000 in 2007. Further, per the agreement, the Commission may receive an additional $350,000 payment from the third-party if the aforementioned easements are assigned by the third-party to another entity or there is a sale of a controlling interest in the third-party at any time from and after the end of the thirty-sixth month following the date that the facility commences operational use of the easements.

Federal and State Grants: The Commission secured funding in the form of two separate grants from the New York State Department of Transportation for a wharf reconstruction project, performed in two phases, and entered into contracts for construction in the full amount of the project's total estimated cost. The first grant provided for up to $6,500,000 in New York State funding for the first phase of the project, over and above which the Commission must provide at least 10% of the total phase one project cost. At year end, the project was complete and the Commission had expended approximately $7,970,000 under this grant. The second grant provided for approximately $5,000,000 in federal funding for the second phase of the project, the full amount of the estimated cost to complete the project. At year end, the project was complete and the Commission had expended approximately $4,886,000 under this grant.

The Commission has also secured funding from the Department of Homeland Security for a security upgrade project. The grant provides for up to $735,000 in federal funds, over and above which the Commission must provide at least 25% of the total project cost, estimated to be approximately $980,000. At year end, the Commission had expended approximately $839,000 under this grant. The project is expected to be completed during 2012.

The Commission receives grants which are subject to audit by agencies of the Federal and State governments. Such audits may result in disallowances and a request for a return of funds to the Federal and State governments. The Commission is currently involved in a dispute with the federal funding source over certain technical aspects of work performed under the second phase of the wharf reconstruction project. Based on this dispute, the funding source has withheld approximately $1,120,000 in reimbursement requests that have been submitted by the Commission. Management believes the dispute will be resolved in their favor and that disallowances, if any, will be immaterial.

SUPPLEMENTARY INFORMATION

ALBANY PORT DISTRICT COMMISSION
SCHEDULES OF PAYROLL AND RELATED COSTS AND OTHER OPERATING EXPENSES
Years ended December 31, 2011 and 2010

	2011	2010
PAYROLL AND RELATED COSTS		
Administrative	**$ 576,292**	$ 549,909
Maintenance crews and supervisor	**213,234**	238,068
Security	**320,136**	303,743
Benefit costs	**319,158**	302,020
OPEB expense	**252,193**	252,193
Payroll taxes	**82,738**	81,440
Total payroll and related costs	**$ 1,763,751**	$ 1,727,373
OTHER OPERATING EXPENSES		
Security	**$ 39,571**	$ 51,169
Utilities	**103,091**	102,313
City water	**4,473**	4,109
Advertising and promotion	**136,373**	136,417
Office supplies and expenses	**61,288**	44,927
Telephone	**25,503**	23,807
Snow removal	**20,709**	5,500
Equipment operating expense	**69,304**	55,107
Other expenses	**37,046**	41,575
Total other operating expenses	**$ 497,358**	$ 464,924

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT GUIDELINES, BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Commissioners
Albany Port District Commission

We have audited the financial statements of the Albany Port District Commission (the "Commission") as of and for the year ended December 31, 2011, and have issued our report thereon dated March 20, 2012. 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; and Investment Guidelines for Public Authorities issued by the Office of the State Comptroller, State of New York.

<u>Internal Control Over Financial Reporting</u>

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

<u>Compliance and Other Matters</u>

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

This report is intended solely for the information and use of the Commissioners and management of the Albany Port District Commission, others within the entity, federal awarding agencies, pass-through entities and New York State departments and agencies, and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Albany, New York
March 20, 2012