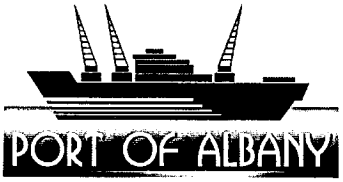
ALBANY PORT DISTRICT COMMISSION



AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years ended December 31, 2012 and 2011

UHY LLP
Certified Public Accountants

ALBANY PORT DISTRICT COMMISSION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

New York State Governor Andrew Cuomo and the NYS Department of Transportation played a major role in the plans to further enhance and modernize the Port of Albany in 2012. The Port competed for and was awarded an $11.5M grant from the state through the Regional Councils to revitalize and refurbish the wharfs on the Rensselaer side of the Port. Predevelopment work began in 2012 for the major infrastructure enhancement project. The wharf improvements will enable the Port to increase the level of commerce activity and economic development potential on the east side of the Hudson River. New wharves will provide enhanced capacity for cargo for our current tenants and will enable the Port to increase tonnage and potentially increase the number of vessels on the Rensselaer side of the Port operations.

This project builds upon a similar project funded by the American Recovery and Reinvestment Act which installed 800 ft. of new wharf and associated rail infrastructure in 2011 on the Albany side of the Port. In 2012, the Port already began to see the return on this major investment. The $12 million concrete and steel wharf system was designed to withstand 1,200 pounds per foot and added 300 feet of new on dock rail line. This has allowed the Port to immediately see benefits with increased large cargo handling, increased ships utilizing the port and increased tonnage in 2012.

In 2012, the Port also made strides with real estate activity. An 18 acre parcel of vacant land in the Albany Port District was leased to a New York State based metal recycler who will invest $15 million to construct its shipping center. This is expected to increase longshoreman hours, maritime activity and increase lease income for the Port. Other tenant activity in 2012 that is increasing maritime and longshoremen hours at the Port include Buckeye Partners deal to increase crude oil shipments out of the Port. All perspectives of the Port operations are either experiencing increased activity or planning for increased activity. Investments in infrastructure enhancements are providing critical returns to the Port and to the local and regional economy.

All of our work is accomplished with the strong support of Albany Mayor Gerald Jennings. He has always been at the forefront of advocating for the Port in the Federal and State governments. Mayor Jennings has been critical to assisting the Port secure vital resources to enhance infrastructure systems. The Port is also bolstered by the support of its State Legislative Delegation.

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:

	2010	2011	2012
Ships	49	42	58
Barges-Heavy Lift	9	11	6
Total	58	53	64
Tonnage:			
Inbound	28,579	37,430	54,892
Outbound	423,339	267,591	336,578
Total	451,918	305,021	391,470
Longshoremen Man Hours	29,565	41,020	33,720

Financial Operation Highlights

Total net position increased $66,936 for 2012 compared with a $1,777,096 increase from the prior year.

The $66,936 increase for 2012 can primarily be attributed to the following:

- Capital Contributions $627,418
- Increase in Operating Revenues $89,746
- Increase in Operating Expenses $19,063

Financial Position Summary

Net position may serve over time as a useful indicator of the Commission's financial position. The Commission's assets exceeded liabilities by $32,059,140 at December 31, 2012, an increase of $66,936 from December 31, 2011. A three-year comparison is shown below:

	2010	2011	2012
Assets			
Current and other assets	$ 4,433,493	$ 4,246,253	$ 4,779,564
Capital assets	28,851,163	30,757,219	30,305,131
Total assets	$ 33,284,656	$ 35,003,472	$ 35,084,695
Liabilities			
Current and other liabilities	$ 1,072,507	$ 946,874	$ 894,326
Long-term liabilities	1,997,041	2,064,394	2,131,229
	$ 3,069,548	$ 3,011,268	$ 3,025,555
Net Position			
Invested in capital assets, net of related debt	$ 27,278,420	$ 29,453,694	$ 29,158,412
Unrestricted	2,936,688	2,538,510	2,900,728
Total net position	$ 30,215,108	$ 31,992,204	$ 32,059,140

Future Operations

- In the 4th quarter of 2012 The Albany Port District Commission signed an Off-Loading Agreement with Buckeye Terminal LLC which will provide an estimated $150,000 annually.
- 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 2013 to assist in the management of real property assets.
- The Commission has issued a Request for Proposals (RFP) for 12 acres within the Port to establish a maritime related business.
- The Port plans to make necessary maintenance and operation investments, including a roof replacement at Warehouse A which will ensure added lease activity. The Port has identified additional operation investments that are necessary to accommodate growing commerce activity. These investments, including equipment needs, will require pursuing funding assistance, including state or federal resources.
- The Port has identified potential real estate investments that would allow new lease opportunities, including demolishing an underutilized shed at 503 Smith Boulevard to make way for new construction opportunities.

- Utilizing a grant obtained from the Department of Homeland Security, the Commission plans to construct a state of the art Security and Emergency Operations Center. The grant provides up to $750,000 in federal funds for 75% of the total project cost, estimated to be $800,000.
- 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 financial statements of Albany Port District Commission (a component reporting unit of the City of Albany) as of December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1–3 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Albany Port District Commission's internal control over financial reporting and compliance.

Supplementary Information

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 22 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 25, 2013

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF NET POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 829,595	$ 382,691
Investments	3,196,021	2,100,589
Accounts receivable	503,430	1,489,884
Other current assets	245,535	265,390
Total current assets	4,774,581	4,238,554
NET PROPERTY AND EQUIPMENT	30,305,131	30,757,219
OTHER	4,983	7,699
	$ 35,084,695	$ 35,003,472
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 145,683	$ 156,807
Deferred revenue	75,392	166,423
Accounts payable	147,600	193,710
Accrued expenses	361,908	365,296
OPEB obligation, current portion	36,700	36,700
Total current liabilities	767,283	918,936
SECURITY DEPOSITS	127,043	27,938
LONG-TERM LIABILITIES		
OPEB obligation net of current portion	1,130,193	917,676
Long-term debt, net of current maturities	1,001,036	1,146,718
Total long-term liabilities	2,131,229	2,064,394
Total liabilities	3,025,555	3,011,268
NET POSITION		
Invested in capital assets, net of related debt	29,158,412	29,453,694
Unrestricted	2,900,728	2,538,510
Total net position	32,059,140	31,992,204
	$ 35,084,695	$ 35,003,472

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2012 and 2011

	2012	2011
OPERATING REVENUES		
Property rentals	**$ 2,908,097**	$ 2,856,182
Dockage fees	**310,336**	204,864
Wharfage fees	**330,730**	279,180
Stevedore fees	**170,106**	202,378
Crane/equipment rentals	**115,500**	53,025
Security fees	**213,503**	395,155
Storage and other services charges	**149,606**	117,348
Total operating revenues	**4,197,878**	4,108,132
OPERATING EXPENSES		
Payroll and related benefit costs	**1,786,030**	1,763,751
Maintenance expense	**72,666**	106,602
Material handling	**125,345**	90,684
Insurance	**286,829**	209,865
Professional and consulting fees	**239,909**	246,537
Other operating expenses	**423,081**	497,358
Total operating expenses	**2,933,860**	2,914,797
OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS	**1,264,018**	1,193,335
DEPRECIATION AND OTHER ITEMS		
Depreciation and amortization	**(1,463,925)**	(1,304,344)
Waterfront development expenses	**(323,667)**	(332,155)
Decrease in fair value of investments	**(27,970)**	(5,705)
Interest income	**29,799**	1,806
Interest expense	**(38,737)**	(51,085)
Net depreciation and other items	**(1,824,500)**	(1,691,483)
DECREASE IN NET POSITION BEFORE CAPITAL FUNDING	**(560,482)**	(498,148)
Capital contributions	**627,418**	2,275,244
INCREASE IN NET POSITION	**66,936**	1,777,096
Total net position, beginning of the year	**31,992,204**	30,215,108
Total net position, end of year	**$ 32,059,140**	$ 31,992,204

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2012 and 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from rentals	**$ 3,036,576**	$ 2,934,831
Cash received for facility usage	**794,460**	745,467
Cash received from other services	**319,361**	703,059
Cash payments to employees and professionals	**(1,816,801)**	(1,749,527)
Cash payments for materials and maintenance	**(344,325)**	(190,852)
Cash payments for insurance	**(266,974)**	(295,047)
Cash payments for other expenses	**(323,976)**	(497,358)
Net cash provided by operating activities	**1,398,321**	1,650,573
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments for waterfront development	**(323,667)**	(332,155)
Net cash used in noncapital financing activities	**(323,667)**	(332,155)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for capital assets	**(1,098,991)**	(3,480,261)
Cash received from capital grant funding	**1,762,216**	1,484,789
Interest expense	**(38,737)**	(51,085)
Cash payments on long-term debt and other obligations	**(156,806)**	(269,218)
Net cash provided by (used in) capital and related financing activities	**467,682**	(2,315,775)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest	**1,829**	1,806
Cash paid for purchase of investments	**(3,669,094)**	(5,177,034)
Cash received from sale of investments	**2,571,833**	5,180,000
Net cash (used in) provided by investing activities	**(1,095,432)**	4,772
Net increase (decrease) in cash	**446,904**	(992,585)
Cash, beginning of year	**382,691**	1,375,276
Cash, end of year	**$ 829,595**	$ 382,691
RECONCILIATION OF OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income, before depreciation and other items	**$ 1,264,018**	$ 1,193,335
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in:		
Accounts receivable	**(148,344)**	82,847
Other assets	**19,855**	(85,182)
Accounts payable	**45,580**	6,434
Accrued expenses	**95,726**	46,168
Deferred revenue	**(91,031)**	163,540
OPEB obligation	**212,517**	215,493
Total adjustments	**134,303**	429,300
Net cash provided by operating activities	**$ 1,398,321**	$ 1,622,635

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 and Statement 63, establishes standards for external reporting for all state and local government entities. It also requires the classification of net position 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 net position 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 net position component as the unspent proceeds.

- *Restricted* – This component of net position, 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 net position was classified as restricted at December 31, 2012 and 2011.

- *Unrestricted* – This component of net position 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 under 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 statements of net position at market value.

Property and Equipment

The Commission's property, equipment, and other facilities are carried at cost and include capital 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, retirement benefits and post-retirement benefits, 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 2012 and 2011, deferred revenue also includes approximately $59,100 and $162,600, respectively, received from insurance proceeds as a result of certain damage incurred to the Commission's property. These proceeds are used to offset the expense when the related repairs are undertaken.

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 certain security related 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, maintenance costs, material handling costs, insurance costs, professional and consulting fees, promotional 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 2011 financial statement line items have been reclassified to conform with the current year's presentation.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New GASB Accounting Standards

As of January 1, 2012, the Commission adopted GASB 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. While the change has been applied retroactively, the Commission did not have any resources that would be reported as deferred outflows of resources or deferred inflows of resources at either December 31, 2012 or 2011.

NOTE 3 — CASH AND CASH EQUIVALENTS

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

	2012		2011	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Cash on hand	$ 300	$ 300	$ 300	$ 300
Deposit accounts	829,295	861,952	354,453	425,933
	$ 829,595	$ 862,252	$ 354,753	$ 426,233

At December 31, 2012 and 2011, the Commission's cash and deposits were covered by FDIC insurance or otherwise collaterally secured.

NOTE 4 — INVESTMENTS

At December 31, 2012, investments, which are stated on the statements of net position at market value, are comprised of U.S. Government agency obligations, as follows:

Investment	Par Amount	Maturity	Market (Carrying) Value	Cost
Federal National Mortgage Association	$ 295,000	2/12/2013	$ 296,141	$ 303,148
First Niagara Bank NA (CD)	249,000	2/25/2013	248,965	249,000
Federal Home Loan Mortgage Corporation	260,000	4/11/2013	261,144	263,994
Federal Home Loan Mortgage Corporation	250,000	4/15/2013	251,075	252,000
Federal Home Loan Bank	325,000	5/29/2013	325,517	325,929
Federal Home Loan Bank	340,000	6/7/2013	340,326	340,347
Goldman Sachs Bank (CD)	249,000	8/22/2013	248,978	249,000
Apple Bank for Savings New York (CD)	99,000	8/29/2013	98,988	99,000
Apple Bank for Savings New York (CD)	148,000	10/24/2013	147,736	148,000
Safra National Bank (CD)	249,000	10/25/2013	248,552	249,000
Federal National Mortgage Association	165,000	12/11/2013	169,229	169,519
Federal Home Loan Bank	225,000	12/13/2013	231,268	231,561
Federal Farm Credit Bank	125,000	2/10/2014	125,034	124,994
Federal Farm Credit Bank	200,000	10/6/2014	203,068	203,194
	$ 3,179,000		$ 3,196,021	$ 3,208,686

NOTE 4 — INVESTMENTS (Continued)

At December 31, 2011, investments, which are stated on the statements of net position at market value, were 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

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, 2012 and 2011 are categorized as Category 1.

NOTE 5 — PROPERTY AND EQUIPMENT

Property and equipment is comprised of the following:

	December 31 2011	Additions	Deletions	December 31 2012
Port marine facilities	$ 78,116,938	$ 372,845	$ -	$ 78,489,783
Transportation, equipment and furniture	810,749	-	-	810,749
Construction in process	19,400	636,276	-	655,676
Total	78,947,087	1,009,121	-	79,956,208
Less accumulated depreciation	48,189,868	1,461,209	-	49,651,077
Net property and equipment	$ 30,757,219	$ (452,088)	$ -	$ 30,305,131

Depreciation expense was $1,461,209 and $1,301,628 for the years ended December 31, 2012 and 2011, respectively.

NOTE 6 — LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31 2011	Debt Issued	Debt Payments	December 31 2012
NYS First Instance advances *(A)*	$ 237,709	$ -	$ 80,000	$ 157,709
M&T warehouse obligation *(B)*	1,052,078	-	63,068	989,010
Real Lease capital lease *(C)*	13,738	-	13,738	-
	1,303,525	$ -	$ 156,806	1,146,719
Less current maturities	156,807			145,683
	$ 1,146,718			$ 1,001,036

(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.

(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 balloon payment approximating $864,000 in November 2014. The mortgage is secured by the warehouse facility.

(C) 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 were 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, 2012, long-term debt maturities were comprised of the following:

Year Ending	Principal	Interest	Total
2013	$ 145,683	$ 38,937	$ 184,620
2014	1,001,036	33,033	1,034,068
	$ 1,146,719	$ 71,970	$ 1,218,688

Interest expense, inclusive of interest imputed on capital leases and certain other related costs, was $38,737 and $51,085 for 2012 and 2011, 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, 2012, 2011 and 2010 are as follows:

	2012	2011	2010
Retirement related payroll	$ 726,234	$ 711,985	$ 739,670
Employer Contributions	$ 151,392	$ 119,125	$ 111,408
Employee Contributions	$ 21,864	$ 26,789	$ 22,425

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 2012 and 2011, 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 most recent valuation date. Valuations are currently prepared every three years, as required by GASB 45.

	2012	2011
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:

	2012	2011
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:

	2012	2011
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:

	2012	2011
Net OPEB obligation at beginning of year	$ 954,376	$ 738,883
Annual OPEB expense	252,193	252,193
Annual OPEB contributions	(39,676)	(36,700)
Net OPEB obligation at end of year	1,166,893	954,376
Less: estimated current portion of OPEB obligation	36,700	36,700
Estimated long-term portion of OPEB obligation	$ 1,130,193	$ 917,676
Percentage of expense contributed	15.0%	15.0%

Trend Information

Year Ended	Beginning OPEB Obligation	Annual OPEB Cost	Actual Employer Contribution	Percentage Contributed	Net OPEB Obligation
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
12/31/2012	954,376	252,193	39,676	14.6%	1,166,893

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, 2012 were as follows:

2013	$ 2,629,000
2014	2,121,000
2015	1,987,000
2016	1,890,000
2017	1,401,000
Thereafter	18,283,000
	$ 28,311,000

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 those funded from 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 $255,000 in 2024, thus providing for the full amortization of the bonds by the 2027 maturity date.

Future debt reduction payments are expected as follows:

Year Ending	
2013	$ 155,000
2014	160,000
2015	165,000
2016	175,000
2017	180,000
Thereafter	1,540,000
	$2,375,000

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 was required to pay ALDC monthly payments of $2,425, for 120 months, beginning May 2002 and ended April 2012.

During 2012 and 2011, the Commission's total lease cost, project improvement cost, and other operating expenses related to the waterfront development project approximated $315,000 and $332,000, respectively.

The Commission's future lease obligations under the shared use and 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 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: During 2011, the Commission secured funding from the Department of Homeland Security and undertook 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 $927,000 on this project, which is expected to be completed during 2013.

During 2012, the Commission undertook a second security upgrade project, also funded with a grant from the Department of Homeland Security. The grant provided for approximately $184,000 in federal funds, over and above which the Commission was required to provide at least 25% of the total project cost, which approximated $246,000. The project was completed in June 2012.

The Commission has also secured funding from the Department of Homeland Security for a Security and Emergency Operations Center building project. The grant provides for up to $750,000 in federal funds, over and above which the Commission must provide at least 25% of the total project cost, estimated to be approximately $800,000. The Commission has requested a waiver that would eliminate the Commission's requirement to provide 25% of the total funding for the project and expects a decision to be made in early 2013. At year end, the Commission had expended approximately $8,000 on this project, which is expected to be completed during 2013.

The Commission has secured funding in the form of two separate grants from the New York State Department of Transportation for a wharf reconstruction project. The first grant provides for up to $1,572,220 in New York State funding for the first phase of the project. At December 31, 2012, the Commission had expended approximately $368,000 on this phase of the project, which is expected to be completed during 2013. The second grant provides for approximately $9,885,000 in federal funding for the second phase of the project, over and above which the Commission must provide at least 10% of the total phase two project costs to reach the full amount of the estimated cost to complete the project ($12,730,000). Phase two of the project is expected to begin during 2013 and be completed in 2014.

NOTE 10 — COMMITMENTS AND CONTINGENCIES (Continued)

Prior to 2011, 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 December 31, 2011, 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 December 31, 2011, the project was complete and the Commission had expended approximately $4,886,000 under this grant.

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.

SUPPLEMENTARY INFORMATION

ALBANY PORT DISTRICT COMMISSION
SCHEDULES OF PAYROLL AND RELATED COSTS AND OTHER OPERATING EXPENSES
Years ended December 31, 2012 and 2011

	2012	2011
PAYROLL AND RELATED COSTS		
Administrative	**$ 626,071**	$ 576,292
Maintenance crews and supervisor	**219,774**	213,234
Security	**247,439**	320,136
Benefit costs	**353,989**	319,158
OPEB expense	**252,193**	252,193
Payroll taxes	**86,564**	82,738
Total payroll and related costs	**$ 1,786,030**	$ 1,763,751
OTHER OPERATING EXPENSES		
Security	**$ 52,568**	$ 39,571
Utilities	**77,709**	103,091
City water	**11,468**	4,473
Advertising and promotion	**102,943**	136,373
Office supplies and expenses	**51,960**	61,288
Telephone	**21,883**	25,503
Snow removal	**600**	20,709
Equipment operating expense	**67,335**	69,304
Other expenses	**36,615**	37,046
Total other operating expenses	**$ 423,081**	$ 497,358

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, 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, the financial statements of the Albany Port District Commission (the "Commission") as of and for the year ended December 31, 2012, and have issued our report thereon dated March 25, 2013.

Internal Control Over Financial Reporting

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

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

Our consideration of 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 that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

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Purpose of This Report

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 25, 2013