PORT OF ALBANY

AUDITED FINANCIAL STATEMENTS
AND
OTHER INFORMATION

Years ended December 31, 2018 and 2017

UHY LLP
Certified Public Accountants

ALBANY PORT DISTRICT COMMISSION

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The following discussion and analysis (MD&A) of the activities and financial performance of the Albany Port District Commission ("APDC" or the "Port") is offered as an introduction and overview of the financial statements of APDC for the fiscal year ended December 31, 2018, with comparative data for the fiscal year ended December 31, 2017. Following this MD&A are the basic financial statements of APDC 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, certain supplementary information is presented to assist with the understanding of the APDC's financial operations.

APDC is governed by a five member Board of Commissioners ("Board"). All Commissioners are appointed by the Governor of New York State based upon recommendations of the Mayors of Albany and Rensselaer. The Board has adopted several policies as required under the Public Authorities Accountability Act ("PAAA") of 2005 and the Public Authorities Reform Act ("PARA") of 2009, enhancing transparency and embracing best governance practices.

The APDC Finance Committee meets on a quarterly basis or more frequently if necessary to review project and transactional analysis. As necessary, the Committee makes recommendations for consideration by the Board. On a monthly basis, the Board meets to discuss infrastructure needs, project activity and progress, maritime activity performance and the APDC's financial position and performance. Additionally, the APDC Audit Committee, without management present, independently meets with the external auditors to discuss relevant issues and concerns.

INTRODUCTION

In 1925 the Albany Port District Commission was established through an act of the New York State Legislature ("Enabling Legislation"). The Enabling Legislation granted broad authority to the APDC to develop, construct, and manage a maritime facility. During the succeeding decades, the APDC developed into a year-round, twenty-four hour operation encompassing nearly 300 acres within two municipalities, directly and indirectly employing hundreds of men and women and generating hundreds of millions of dollars in regional and state-wide economic output.

Stevedoring services are provided by Federal Marine Terminals, Inc. ("FMT"). Through a Terminal Operating Agreement ("TOA") between APDC and FMT, FMT is authorized to manage a portion of APDC property for general cargo and commodity handling and to conduct various activities related to vessel servicing. Under the TOA, FMT is obligated to make monthly payments to APDC ("Base Payments"). Additionally, upon achieving certain gross revenue thresholds, FMT is also obligated to pay a percentage of gross revenue to APDC ("Revenue Share Payments").

The APDC strives to responsibly and effectively manage the publicly-owned maritime Port of Albany-Rensselaer, driving the economy of Capital Region and beyond while emphasizing transparency and public stewardship. The APDC's mission consists of three main tenets:

- Effective Management of the Public's Asset.
- Economic Contribution to the Region.
- Integrity, Professionalism and Customer Service.

Through the execution of this mission, APDC has emerged as an award-winning, multi-faceted organization offering world-class facilities and services with a global economic influence.

INFRASTRUCTURE INVESTMENT

The guiding principal for Port infrastructure investment is to create an environment which enhances supply chain performance and promotes the efficient movement of cargo between the Port and customer markets. Significant resources are allocated by the APDC to develop projects, identify funding opportunities and perform grant administration related to infrastructure investments. These investments will assist in retaining and attracting customers as the Port develops into a regional logistics hub.

As previously reported, the Port has engaged in a multi-year, multi-project initiative to ensure the Port's capacity is aligned with anticipated market demand. Upon completion in 2020, this initiative will have created over $40 million in mission-critical capital improvements. Nearly $18 million of funding for this work is through the Transportation Investment Generating Economic Recovery ("TIGER") program. This program, administered by the United States Department of Transportation ("USDOT"), will provide funding to support strategic maritime terminal improvements. Grants totaling $19 million from New York State are funding new and replacement infrastructure. During 2018 the capital investment related to new/replacement Port infrastructure was approximately $21 million. Of this amount, 65% was funded from Federal and New York State sources.

Beginning in 2017 and continuing into 2018, projects have been undertaken to grow the Port's storage and transportation capacity for manufactured products. Demonstrating the inter-relationship between maritime activity and upland development, these projects will result in new assets both within the maritime terminal and on underutilized land adjacent to the terminal. The Port has leveraged these projects to establish a competitive advantage to pursue business and cargo capture.

The reconstruction of approximately 840 feet of the southern wharf on the western side of the facility that began in 2017 has continued and is expected to be completed during 2019. The area of the wharf being replaced dates back to the Port's original construction. Design elements of the wharf will feature a roll-on, roll-off ramp ("RoRo") and an enhanced weight capacity to accommodate the anticipated needs of the APDC's current and future manufacturing customers.

LEASING

During 2018 new long-term leases were executed between the APDC and two businesses. This allows for the leveraging of APDC-owned assets and public funding to induce business development and investment at the Port. This development allows the Port to create value-added supply chain solutions for new and existing customers.

During the fourth quarter, the APDC executed a lease with a trucking and logistics company for a newly constructed 45,000 square foot climate-controlled warehouse. This warehouse features a clear-span design with an enhanced floor weight capacity. These design elements have been incorporated specifically to accommodate the next generation of energy generating infrastructure components and to attract/retain heavy lift/project cargo manufacturing customers. The initial annual rent is $450,000 with an initial term running through 2028. The tenant has the option for two additional 5-year terms following the expiration of the initial term.

The 13-million bushel capacity grain elevator dates back to the Port's original construction and for several decades was the largest grain elevator east of the Mississippi River. Since it was put into service it had been leased to one of the Port's original tenants. A new lease for 12.5 acres of land (which includes the grain elevator) executed between the APDC and an existing tenant commenced on July 1, 2018 with an initial 20-year term with two 5-year options. This transaction is expected to generate economies of scale within the tenant's supply chain and represents an opportunity for future investment which could include utilization of maritime assets currently under construction.

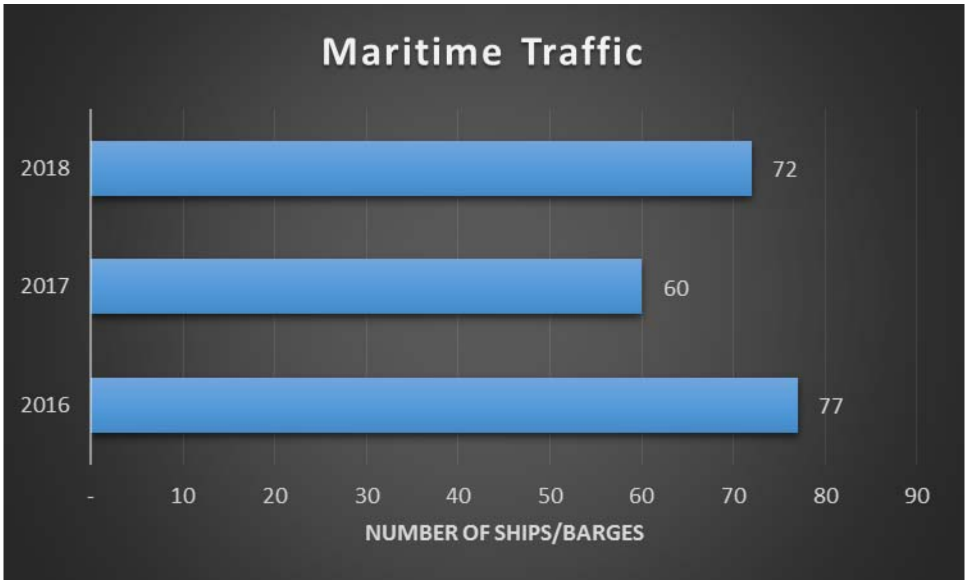
EXPANSION

In 1932, President (then Governor of New York) Franklin Delano Roosevelt presided over the Port's dedication ceremony and highlighted the colossal engineering feat that established the Port. At that time, it could not have been known that nearly 85 years later, the APDC Board of Commissioners would guide the Port through a land acquisition that will result in the first significant physical expansion of the Port.

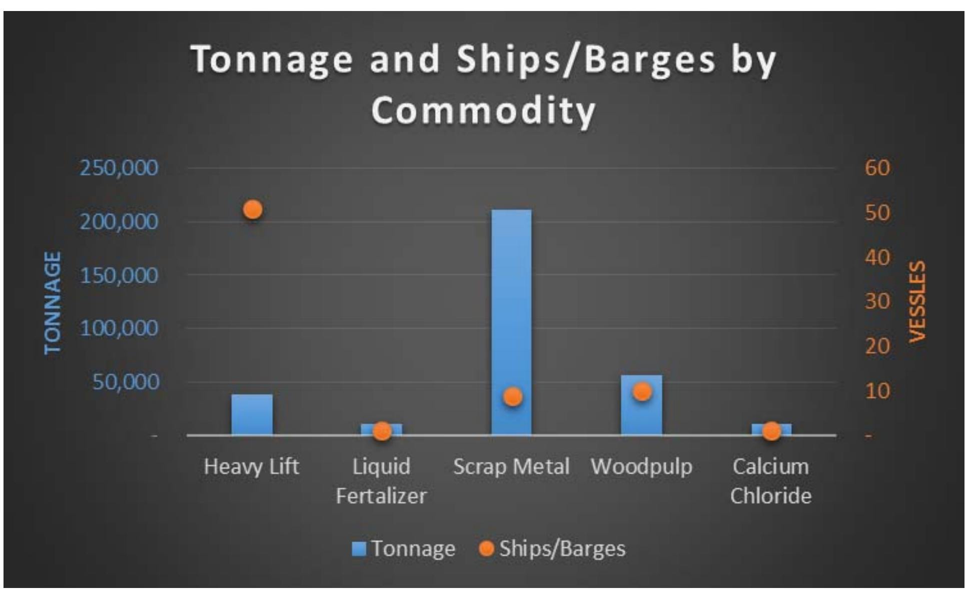
During the fourth quarter, the APDC closed on the $5.25 million purchase of an 80-acre site adjacent to the Port's southeastern border in the town of Bethlehem. This acquisition has increased the size of the Port by 25% to nearly 400 acres. To fund this purchase, the Port utilized a portion of the investment portfolio and executed an additional $2.5 million sub-lease under an existing master lease with Bank of America.

Various pre-development activities have commenced and the required permitting process for the site is underway. Full permitting is anticipated to take approximately 12 months after which core infrastructure construction will begin. Upon completion, the site could feature as much as 1,000,000 square feet of warehouse space or serve as an assembly facility for off-shore wind energy development activities.

<u>MARITIME-RELATED ACTIVITY</u>

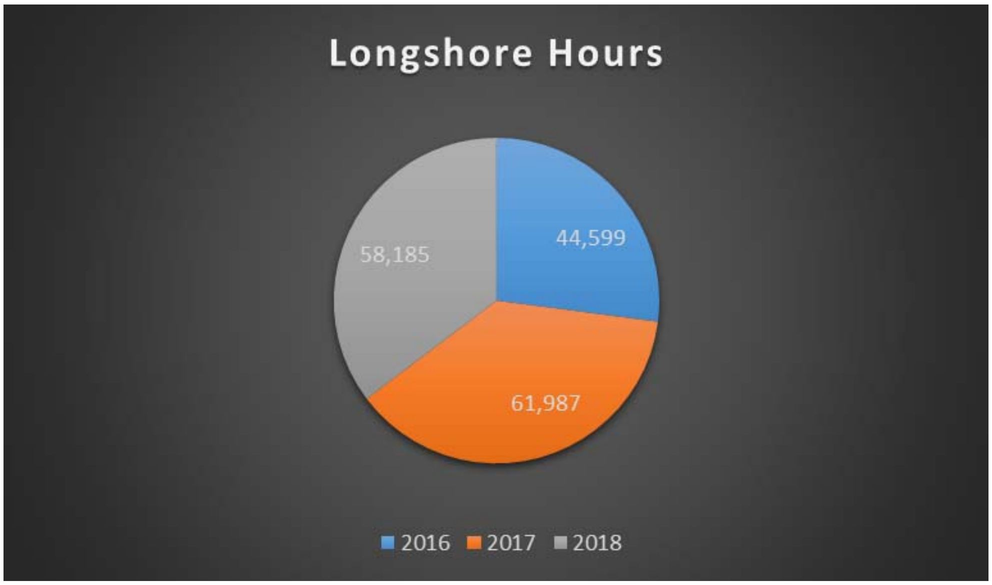


- As compared to 2017, calls to the Port increased by twelve ships/barges overall during 2018. The primary driver of this increase is within the heavy lift/project cargo category, which saw a 33% increase. More modest increases also occurred in the scrap metal and wood pulp categories.
- One of the Port's major manufacturing customers continued its role in two significant electrical generating projects during 2018. These projects, which have a reported combined cost of approximately $2 billion, drove significant inbound calls with the cargo being transported from the Port to project sites within New York State and Pennsylvania.

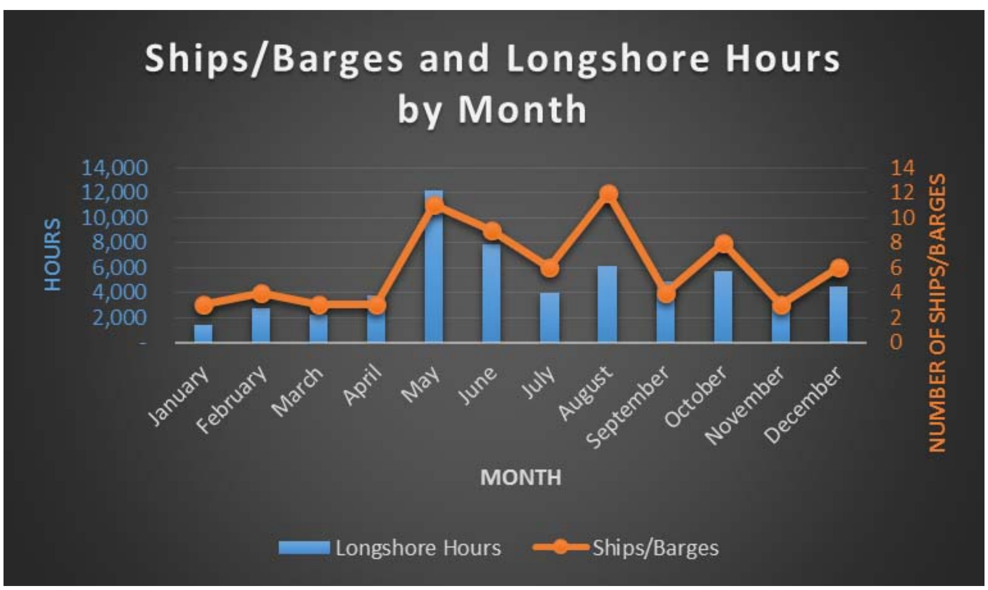


- Scrap metal remains the highest-volume commodity in terms of tonnage by a substantial margin. Scrap metal represents almost 65% of total tonnage for the year. Wood pulp which yields the second highest volume of tonnage (17% of total tonnage in 2018). On a per vessel basis, average tonnage for scrap metal was about 23,500 tons, which is a modest increase (roughly 5%) over 2017.

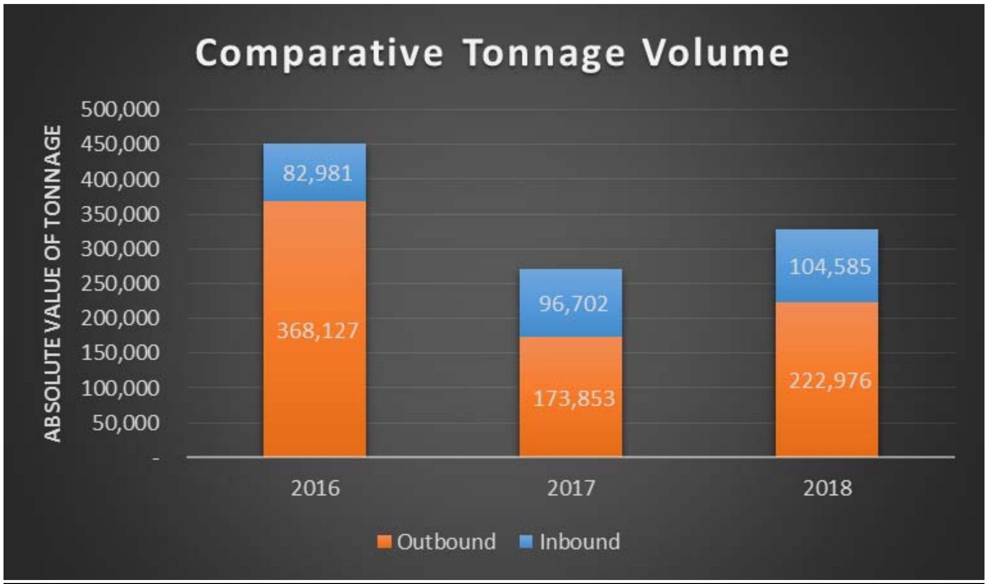
- Although heavy lift/project cargo represents a relatively modest amount of total 2018 tonnage (approximately 12% or 38,000 tons), almost 70% of all cargo-carrying ship and barge calls in 2018 fell into this category.



- The number of longshore hours worked is one of the Port's key indicators and is discussed in detail with the Board of Commissioners on a monthly basis. This metric is important as it demonstrates the economic value and job opportunities created by the Port's activity.



- More than 12,000 longshore hours were worked during May 2018, which is a record for the number of hours worked during a single month. To provide some context, in 2014 (the year the Port set a record for the most longshore hours worked in a year at just under 82,000 hours), the average number of hours worked in a month was 6,800. Over the previous four years, the monthly average longshore hours worked was 5,195.



- Overall tonnage has increased from 2017 by 21%. While still below the tonnage handled in 2016, inbound cargo tonnage in 2018 represents a 3-year high and is a 26% increase over 2016.

- Excluding non-reoccurring inbound cargo handling that occurred in 2017, the year-over-year inbound tonnage increase is 19%. That increase is primarily driven by the increase in wood pulp vessels. Wood pulp tonnage handled in 2018 increased just over 14,000 or 34%.

- Outbound tonnage increased by 49,000 tons or 28%. Although heavy lift/project cargo tonnage decreased by 30% (4,500 tons), scrap iron tonnage increased by over 53,000 tons mitigating the decrease.

FINANCIAL OPERATIONS HIGHLIGHTS

A condensed summary of revenues and expenses for the years ended December 31, 2018 and 2017 is shown below.

	2018	2017
OPERATING REVENUES		
Property and equipment rentals	$ 3,696,220	$ 3,692,105
Maritime-related	1,644,058	1,335,224
Security	550,843	508,573
Other operating revenues	181,309	186,870
Total operating revenues	6,072,430	5,722,772
OPERATING EXPENSES		
Payroll and related expenses	2,497,721	2,633,068
Maintenance and material handling	666,165	397,507
Professional services	470,579	489,801
Other operating expenses	330,321	455,867
Total operating expenses	3,964,786	3,976,243
OPERATING INCOME	2,107,644	1,746,529
Depreciation and other items	(2,466,285)	(2,281,042)
CHANGE IN NET POSITION BEFORE CAPITAL FUNDING	(358,641)	(534,513)
Capital grant funding	14,437,332	7,836,141
INCREASE (DECREASE) IN NET POSITION	14,078,691	7,301,628
Total net position, beginning of year, unadjusted	51,333,124	44,031,496
Prior period adjustment (Note 2)	(2,023,274)	-
Total net position, beginning of year, adjusted	49,309,850	44,031,496
Total net position, end of year	$ 63,388,541	$ 51,333,124

Income generated from operations has increased by $361,000 (21%) over 2017. This increase is primarily attributable to the year-over-year growth in operating revenue.

Operating Revenue increased by $350,000 or 6% from 2017. Non maritime-related revenue was virtually flat as compared to 2017; increasing by under 1%. Maritime-related revenue; however, increased by over 23% ($309,000).

- Dockage Fees are charged for vessels that are utilizing berths and are based upon either the length or net registered tonnage ("NRT") of the vessel. Overall, revenue derived from this category increased by $54,000 or 12%. Most of this increase ($52,000) was driven by activity within the heavy lift/project cargo category. In 2018 several heavy lift/project cargo calls utilized vessels that are approximately three-times larger (based on NRTs) than those used in the past to transport this cargo.

- Revenue derived from wharfage increased significantly in 2018; by $274,000 or 68%. The increase in driven in part by a higher volume of ship/barge traffic and also by the manner in which customer wharfage charges are assessed. Specifically, cargo for the manufacturing projects mentioned previously was billed based on volume (as opposed to weight).

- Effective January 1, 2018 a restructured TOA took effect. The fixed payment component was increased and the revenue share component was recalibrated to invert the revenue threshold amount and percentages to incentivize increased activity. The amount received under the new TOA is just under $67,000 higher (18%) over 2017.

- Revenue generated from utilization of the APDC's two Liebherr mobile harbor cranes decreased modestly by about 2% ($80,000) as compared to 2017. The revenue generated in 2018 equates to 1,149 hours of use by FMT for maritime terminal operations. Although crane utilization was lower in 2018 it should be noted that those hours were generated primarily by only one of the cranes; as the other crane was out of service for most of the year. That crane is anticipated to be placed back in service during Q1 of 2019.

Operating expenses in 2018 overall remained virtually flat from 2017 (decrease was less than 1%). This continues a trend from 2016 as operating expenses are contained while significant capital improvements are undertaken.

- Payroll and related expenses have decreased by just over 5% or $135,000 from 2017. A primary driver being a reduction of the expense recognized under GASB 75 as compared to the expense recognized under GASB 45 in 2017. (The notes to the financials cover GASB 75 activity in detail.) Additionally, employee benefits decreased by 8% ($41,000). APDC's share of employee retirement contributions decreased by just under $41,000 (18%). These decreases are offset by modest (less than 3%) increases in administrative and maintenance salary expense.

- Professional services decreased overall by 4% ($19,000) from 2017. Premiums for property and liability insurance coverage decreased by $24,000. This reduction was offset by a $7,000 increase in various professional fees paid. Non-capitalized expense related to engineering services increased by $70,000 as evaluations of Port-owned property continued in 2018. This is almost entirely offset by a $69,000 decrease in expense related to consultants.

- Material Handling increased by $64,000 or 48%. Parts and repairs related to one of the Port's mobile harbor cranes increased by $78,000. This is offset by an approximately $10,000 reduction in expenses related to the Port's fork truck fleet as older assets are taken out of service and replaced. Related to the mobile harbor crane being out of service, equipment leasing increased significantly ($210,000) which was the cost incurred for replacement crane services on an as needed basis to supplement the crane that remained in service.

- Maintenance expense increased by $31,000 or 13%. Although expense related to service contracts increased by $58,000 this is primarily due to the reclassification of expenses that had in prior periods been captured as other operating expenses. Reclassifying this activity allows for enhanced reporting service contract cost and evaluation of contractor performance when necessary. This activity was offset by a net decrease across several different activities captured within this category.

- Other operating expenses decreased by 28% ($126,000). In addition to the reclassification mentioned above, fuel expense decreased by $70,000 mostly due to one of the mobile harbor cranes being out of service.

A condensed summary of APDC's net position at December 31, 2016, 2017, and 2018 is shown below:

Total net position has increased by over $12 million (24%) from December 31, 2017 to December 31, 2018.

	2016	2017	2018
Assets and Deferred Outflows of Resources			
Current and other assets	$ 6,137,429	$ 12,715,759	$ 9,565,316
Capital assets	42,937,259	48,953,855	68,506,233
Deferred outflows of resources	594,722	238,854	356,838
Total assets and deferred outflows of resources	$ 49,669,410	$ 61,908,468	$ 78,428,387
Liabilities			
Current liabilities	$ 901,157	$ 2,666,962	$ 3,638,990
Long-term liabilities	4,661,543	7,848,105	9,687,290
Deferred inflows of resources	75,214	60,277	1,713,566
Total liabilities and deferred inflows of resources	$ 5,637,914	$ 10,575,344	$ 15,039,846
Net Position			
Invested in capital assets, net of related debt	$ 40,823,615	$ 43,254,662	$ 61,112,306
Unrestricted	3,207,881	8,078,462	2,276,235
Total net position	$ 44,031,496	$ 51,333,124	$ 63,388,541

CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

- A $2.5 million sub-lease under the existing master lease with Bank of America was executed during November 2018. This sub-lease carries a seven-year term and a fixed rate of 4.09%. Certain APDC-owned equipment assets serve as collateral under the terms of the sub-lease.

- Construction will be completed on the Big Lift Maritime Warehouse and full operations will occur during the first quarter of 2019.

- Next phase of TIGER projects will continue:

  - On December 5, 2018, the Board of Commissioners authorized the execution of a contract with a consultant for construction management advisory services related to the construction of a new warehouse within the maritime terminal and related terminal roadway improvements. Work under this engagement will commence during the first quarter of 2019.

  - During the first quarter of 2019, a request-for-proposals ("RFP") will be issued for design of a new 60,000 square foot warehouse within the existing maritime terminal.

- An RFP will be issued in February 2019 for the disposition via lease of an approximately 2 acre site adjacent to the wharf in the city of Rensselaer. Previously this site had been leased to a bulk cargo handler.

- Federal and state funding opportunities will continue to be pursued to address not only existing infrastructure needs but also to develop new infrastructure in response to emerging trends within the maritime and transportation logistics industries.

FINANCIAL STATEMENTS

APDC'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). Revenue is recognized when earned, not when received and 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 APDC's financial condition. Questions concerning the information provided in this report may be addressed in writing to:

Albany Port District Commission
106 Smith Boulevard
Albany, NY 12202

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, 2018 and 2017, 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.

Opinion

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, 2018 and 2017, 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.

UHY LLP Certified Public Accountants

Other Matters

<u>*Change in Accounting Principle*</u>*:* As described in Note 2 to the financial statements, the Commission adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this item.

<u>*Required Supplementary Information*</u>*:* Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 1 through 9 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 this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

<u>*Other Information*</u>*:* Our audits were conducted for the purpose of forming opinions on the financial statements of the Albany Port District Commission's basic financial statements. The Schedules of Payroll and Related Costs and Other Operating Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedules of Payroll and Related Costs and Other Operating Expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019 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.

UHY LLP

Albany, New York
March 27, 2019

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF NET POSITION
December 31, 2018 and 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and cash equivalents	**$ 2,991,608**	$ 4,804,608
Investments	**738,184**	3,320,703
Accounts receivable	**545,416**	254,373
Grants receivable	**5,045,828**	4,109,759
Other current assets	**244,280**	226,316
Total current assets	**9,565,316**	12,715,759
NET PROPERTY AND EQUIPMENT	**68,506,233**	48,953,855
Total assets	**78,071,549**	61,669,614
DEFERRED OUTFLOWS OF RESOURCES	**356,838**	238,854
	$ 78,428,387	$ 61,908,468
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1,188,439**	$ 805,266
Deferred revenue	**54,288**	62,685
Accounts payable	**1,792,703**	1,482,092
Accrued expenses	**603,560**	239,919
OPEB obligation, current portion	**-**	77,000
Total current liabilities	**3,638,990**	2,666,962
LONG-TERM LIABILITIES		
Long-term debt, net of current maturities	**6,205,488**	4,893,927
Security deposits	**116,111**	127,099
OPEB obligation, net of current portion	**3,236,517**	2,475,472
Net pension liability	**129,174**	351,607
Total long-term liabilities	**9,687,290**	7,848,105
Total liabilities	**13,326,280**	10,515,067
DEFERRED INFLOWS OF RESOURCES	**1,713,566**	60,277
NET POSITION		
Net investment in capital assets	**61,112,306**	43,254,662
Unrestricted	**2,276,235**	8,078,462
Total net position	**63,388,541**	51,333,124
	$ 78,428,387	$ 61,908,468

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
Years ended December 31, 2018 and 2017

	2018	2017
OPERATING REVENUES		
Property rentals	**$ 3,294,070**	$ 3,210,155
Dockage fees	**492,596**	438,410
Wharfage fees	**675,067**	400,746
Stevedore fees	**476,395**	496,068
Crane/equipment rentals	**402,150**	481,950
Security fees	**550,843**	508,573
Storage and other services	**181,309**	186,870
Total operating revenues	**6,072,430**	5,722,772
OPERATING EXPENSES		
Payroll and related benefit costs	**2,497,721**	2,633,068
Maintenance expense	**471,112**	266,340
Material handling	**195,053**	131,167
Insurance	**212,344**	239,073
Professional and consulting fees	**258,235**	250,728
Other operating expenses	**330,321**	455,867
Total operating expenses	**3,964,786**	3,976,243
OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS	**2,107,644**	1,746,529
DEPRECIATION AND OTHER ITEMS		
Depreciation	**(1,952,562)**	(2,008,017)
Waterfront development costs	**(270,648)**	(250,256)
Municipal support agreement costs	**(145,013)**	-
Interest income	**51,712**	30,645
Interest expense	**(149,774)**	(53,414)
Net depreciation and other items	**(2,466,285)**	(2,281,042)
CHANGE IN NET POSITION BEFORE CAPITAL FUNDING	**(358,641)**	(534,513)
Capital grant funding	**14,437,332**	7,836,141
CHANGE IN NET POSITION	**14,078,691**	7,301,628
Total net position, beginning of the year, unadjusted	**51,333,124**	44,031,496
Prior period adjustment (Note 2)	**(2,023,274)**	-
Total net position, beginning of year, adjusted	**49,309,850**	44,031,496
Total net position, end of year	**$ 63,388,541**	$ 51,333,124

See notes to financial statements.

ALBANY PORT DISTRICT COMMISSION
STATEMENTS OF CASH FLOWS
Years ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from rentals	**$ 3,670,331**	$ 3,700,129
Cash received for facility usage	**1,361,127**	1,431,480
Cash received from other services	**732,152**	695,443
Cash payments to employees and professionals	**(2,738,684)**	(2,556,928)
Cash payments for materials and maintenance	**(610,743)**	(429,931)
Cash payments for insurance	**(243,153)**	(440,694)
Cash payments for other expenses	**(331,923)**	(494,803)
Net cash provided by operating activities	**1,839,107**	1,904,696
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash payments for municipal support agreement costs and waterfront development costs	**(415,661)**	(250,256)
Net cash used in noncapital financing activities	**(415,661)**	(250,256)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash payments for capital assets	**(20,926,712)**	(6,598,704)
Cash received from capital grant funding	**13,501,263**	3,840,004
Interest expense	**(151,413)**	(52,893)
Cash received from long-term debt and other obligations	**2,500,000**	4,000,000
Cash payments on long-term debt and other obligations	**(805,266)**	(414,451)
Net cash (used in) received from capital and related financing activities	**(5,882,128)**	773,956
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from interest	**63,163**	28,571
Cash paid for purchase of investments	**(3,563,429)**	(4,296,869)
Cash received from sale of investments	**6,145,948**	4,272,927
Net cash provided by investing activities	**2,645,682**	4,629
Net change in cash	**(1,813,000)**	2,433,025
Cash, beginning of year	**4,804,608**	2,371,583
Cash, end of year	**$ 2,991,608**	$ 4,804,608
RECONCILIATION OF OPERATING INCOME, BEFORE DEPRECIATION AND OTHER ITEMS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income, before depreciation and other items	**$ 2,107,644**	$ 1,746,529
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in:		
Accounts receivable	**(291,043)**	67,086
Other assets	**(29,415)**	(190,238)
Accounts payable	**(5,358)**	(35,411)
Accrued expenses	**92,033**	(15,888)
Deferred revenue	**(8,397)**	37,936
OPEB obligation and net pension liability related accounts	**(26,357)**	294,682
Total adjustments	**(268,537)**	158,167
Net cash provided by operating activities	**$ 1,839,107**	$ 1,904,696

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 for this purpose 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:

- *Net Investment in capital assets* – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.

- *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 either December 31, 2018 or 2017.

- *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."

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.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of Accounting (Continued): 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. This limitation effectively minimizes the Commission's investment related risk and returns. The Commission's investments, which are managed by an independent investment advisor, 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 Federal and State 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 earned, retirement benefits and post-retirement benefits, as a liability. Commission employees are granted vacation leave in varying amounts and may carry-over unused leave, subject to stated policy limitations. In the event of termination, an employee is paid for such time.

Deferred Revenue: Deferred revenue consists principally of rents received in advance.

Retirement Benefits: The Commission provides retirement benefits for its employees through contributions to the New York State Employees' Retirement System ("ERS" or "System"). The System's retirement programs provide various plans and options, some of which require employee contributions. The Commission uses GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) to recognize the net pension liability, deferred outflows and deferred inflows of resources, pension expense, and information about and changes in the fiduciary net position on the same basis as reported by the respective defined benefit pension plans.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 and others. Operating revenues also include equipment rentals, storage fees, 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.

Municipal Support Agreement Costs: The Commission is a party to an agreement with the City of Albany which provides payments for municipal support for certain costs and services provided by the municipality (see Note 11).

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.

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.

Subsequent Events: For purposes of preparing the financial statements, the Commission has considered events through March 27, 2019, the date the financial statements were available to be issued.

Reclassifications: Certain 2017 financial statement line items have been reclassified to conform with the current year's presentation.

Change in Accounting Principle: Effective January 1, 2018, the Commission adopted GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, as amended, and establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This statement also requires various note disclosures.

Effective January 1, 2018, the Commission also adopted GASB Statement No. 85, *Ominbus 2017*, which amends certain requirements of GASB 75.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a result of adopting GASB 75, the 2018 beginning of year net position has been restated as follows:

Net position previously reported, January 1, 2018	$ 51,333,124
Net OPEB liability	(2,023,274)
Net position as restated, January 1, 2018	$ 49,309,850

NOTE 3 — CASH AND CASH EQUIVALENTS

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

	2018		2017	
	Carrying Value	Bank Balance	Carrying Value	Bank Balance
Deposit accounts	$ 2,991,608	$ 3,114,523	$ 4,804,608	$ 4,959,759

At December 31, 2018 and 2017, the Commission's cash and deposits were covered by FDIC insurance or otherwise collaterally secured through its principal financial institution, KeyBank.

NOTE 4 — INVESTMENTS

At December 31, 2018, investments, which are stated on the statements of net position at market value, are comprised of certificates of deposit and U.S. Government agency obligations, as follows:

Investment Rate	Par Amount	Maturity	Market (Carrying) Value	Adjusted Cost (a)
Federal National Mortgage Assn Note (1.25%)	$ 220,000	2/26/2019	$ 219,598	$ 218,537
United States Treasury Bill (zero coupon)	260,000	2/21/2019	259,147	257,812
United States Treasury Bill (zero coupon)	263,000	7/18/2019	259,439	258,234
	$ 743,000		$ 738,184	$ 734,583

(a) The adjusted cost basis reflects any cumulative original issue discount, premium, or acquisition premium (including any year-to-date amount). The amounts were amortized or accrued from the acquisition date through the disposition date. Premium amortization was calculated using the yield-to-maturity method. Acquisition premium was calculated using the ratable accrual method. Any market discount accretion for this position was calculated using the straight-line method and, if applicable, recognized upon disposition.

NOTE 4 — INVESTMENTS *(Continued)*

At December 31, 2017, investments, which are stated on the statements of net position at market value, were comprised of certificates of deposit and U.S. Government agency obligations, as follows:

Investment Rate	Par Amount	Maturity	Market (Carrying) Value	Adjusted Cost (a)
Federal Home Loan Mortgage Corp Note (1%)	$ 150,000	6/29/2018	$ 149,565	$ 150,003
Federal National Mortgage Assn Note (1.05%)	500,000	2/27/2018	499,745	499,600
Federal Home Loan Banks Bond (1%)	370,000	9/6/2018	368,180	368,376
United States Treasury Bill (zero coupon)	150,000	3/1/2018	149,693	149,526
United States Treasury Note (2.625%)	350,000	1/31/2018	350,380	350,420
United States Treasury Note (1.5%)	100,000	12/31/2018	99,684	99,244
United States Treasury Note (1.125%)	300,000	1/15/2019	297,819	298,172
United States Treasury Note (1.5%)	250,000	10/31/2019	248,283	249,102
United States Treasury Note (1.125%)	100,000	6/30/2021	96,844	99,424
Ally Bank (CD; 1.05%)	120,000	4/2/2018	119,892	119,820
Bank of the West (CD; 1.45%)	245,000	5/21/2018	244,976	245,000
Citizens Bank (CD; 1.35%)	200,000	2/2/2018	200,018	200,000
Comenity Capital Bank (CD; 1.1%)	63,000	7/2/2018	62,842	62,953
Comenity Capital Bank (CD; .95%)	150,000	3/6/2018	149,865	149,550
Synchrony Bank (CD; 1%)	42,000	1/8/2018	41,997	41,962
Wells Fargo Bank (CD; 1.1%)	241,000	3/1/2018	240,920	241,000
	$ 3,331,000		$ 3,320,703	$ 3,324,152

Investments and Fair Value Measurements

Investments are carried at fair value on a recurring basis, based on current market prices. GASB No. 72, *Fair Value Measurement and Application*, establishes the fair value hierarchy, defines the requirements on how fair value should be measured and which assets should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Recurring fair value measurements are those that GASB Statements require or permit in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of December 31, 2018 and 2017, all investments measured at fair value were considered Level 1 investments under the fair value hierarchy.

NOTE 5 — PROPERTY AND EQUIPMENT

At December 31, 2018 property and equipment is comprised of the following:

	December 31 2017	Additions	Deletions	December 31 2018
Port marine facilities	$ 96,819,089	$ 5,632,601	$ -	$ 102,451,690
Transportation, equipment and furniture	1,494,225	37,114	47,251	1,484,088
Construction in process	8,506,042	15,835,225	-	24,341,267
Total	106,819,356	21,504,940	47,251	128,277,045
Less accumulated depreciation	57,865,501	1,952,562	47,251	59,770,812
Net property and equipment	$ 48,953,855	$ 19,552,378	$ -	$ 68,506,233

At December 31, 2017 property and equipment is comprised of the following:

	December 31 2016	Additions	Deletions	December 31 2017
Port marine facilities	$ 96,727,231	$ 91,858	$ -	$ 96,819,089
Transportation, equipment and furniture	1,356,136	174,959	36,870	1,494,225
Construction in process	748,246	7,757,796	-	8,506,042
Total	98,831,613	8,024,613	36,870	106,819,356
Less accumulated depreciation	55,894,354	2,008,017	36,870	57,865,501
Net property and equipment	$ 42,937,259	$ 6,016,596	$ -	$ 48,953,855

Depreciation expense was $1,952,562 and $2,008,017 for the years ended December 31, 2018 and 2017, respectively.

NOTE 6 — LONG-TERM DEBT

Long-term debt is comprised of the following:

	December 31 2017	Debt Issued	Debt Payments	December 31 2018
Bank of America master lease obligation	$ 5,699,193	$ 2,500,000	$ 805,266	$ 7,393,927
Less current maturities	805,266			1,188,439
	$ 4,893,927			$ 6,205,488

The Commission is a party to a master lease agreement with Bank of America. In June 2014, under the first draw of the agreement, the Commission borrowed $3,000,000 to retire another Commission obligation and to acquire certain Port related facility equipment. This agreement requires monthly payments of approximately $41,000, including interest at approximately 2.1%, with final maturity in June 2021.

In November 2017, under the second draw, of the agreement, the Commission borrowed $4,000,000 to fund certain construction projects. This agreement required interest only payments of approximately $9,100 per month through May 2018 and, beginning in June 2018, monthly payments of approximately $52,300, including interest at approximately 2.7%, with final maturity in May 2025.

NOTE 6 — LONG-TERM DEBT (Continued)

In November 2018, under the third draw of the agreement, the Commission borrowed $2,500,000 to fund certain current construction projects. This agreement requires interest only payments of approximately $8,500 per month through May 2019 and, beginning in June 2019, monthly payments of approximately $34,300, including interest at approximately 4.1%, with final maturity in May 2026.

The Bank of America master lease obligation is collateralized by certain Commission assets.

At December 31, 2018, long-term debt maturities were comprised of the following:

Year Ending	Principal	Interest	Total
2019	$ 1,188,439	$ 215,122	$ 1,403,561
2020	1,353,597	178,737	1,532,334
2021	1,144,978	140,975	1,285,953
2022	929,659	109,911	1,039,570
2023	960,228	79,343	1,039,571
thereafter	1,817,026	66,993	1,884,019
	$ 7,393,927	$ 791,081	$ 8,185,008

Interest expense was $149,774 and $53,414 for 2018 and 2017, respectively.

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS

Introduction

Substantially all Albany Port District Commission full-time employees participate in the New York State and Local Employees' Retirement System ("System" or “ERS”). 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. In general, retirement benefits are determined based on an employee’s individual circumstances using a pension factor, an age factor, and final average salary. The benefits vary depending on the individual’s employment tier. Pension factors are determined based on tier and an employee’s years of service, among other factors. 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 from the New York State and Local Employees’ Retirement System at www.osc.state.ny.us/retire.

No employee contribution is required for those hired prior to July 1976. The System requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined the System from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership in the System. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the Commission to the pension accumulation fund. For 2018, these rates ranged from 9.3% - 19.7% for the Commission’s active employees. Employee contributions are deducted from their salaries and remitted on a current basis to the System.

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS *(Continued)*

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources

At December 31, 2018, the Commission reported a liability of $129,174 for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of March 31, 2018, and the total pension liability was determined by an actuarial valuation as of April 1, 2017, with updated procedures used to roll forward the total pension liability to March 31, 2018. The Commission's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2018 measurement date, the Commission's proportion was 0.0040024%.

At December 31, 2017, the Commission reported a liability of $351,607 for its proportionate share of the ERS net pension liability. The ERS net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016, with updated procedures used to roll forward the total pension liability to March 31, 2017. The Commission's proportion of the net pension liability was based on the ratio of its actuarially determined employer contribution to ERS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the Commission's proportion was 0.003742%.

For the year ended December 31, 2018, the Commission recognized net pension expense of $173,719 from ERS and reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 46,072	$ 38,072
Changes in assumptions	85,653	-
Net difference between projected and actual earnings on pension plan investments	187,615	370,334
Changes in proportion and differences between Commission contributions and proportionate share of contributions	37,498	5,163
Commission contributions subsequent to measurement date	-	-
	$ 356,838	$ 413,569

***NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS** (Continued)*

Net Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources (Continued)

For the year ended December 31, 2017, the Commission recognized net pension expense of $215,484 from ERS and reported deferred outflows of resources and deferred inflows of resources as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 8,811	$ 53,393
Changes in assumptions	120,122	-
Net difference between projected and actual earnings on pension plan investments	70,230	6,884
Changes in proportion and differences between Commission contributions and proportionate share of contributions	39,691	-
Commission contributions subsequent to measurement date	-	-
	$ 238,854	$ 60,277

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending March 31,	Net Deferred Outflows and Inflows of Resources
2019	$ 45,207
2020	28,440
2021	(90,328)
2022	(40,050)
	$ (56,731)

Actuarial Assumptions

For ERS, the actuarial assumptions used in the April 1, 2017 valuation, with update procedures used to roll forward the total pension liability to March 31, 2018, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%
Salary increases – 3.8%
Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation
Mortality – Based on ERS experience from April 1, 2010 – March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014
Discount rate – 7.0%

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS *(Continued)*

Actuarial Assumptions (Continued)

The actuarial assumptions used in the April 1, 2016 valuation, with update procedures to roll forward the total pension liability to March 31, 2017, were based on the results of an actuarial experience study for the period April 1, 2010 to March 31, 2015. These assumptions are:

Inflation – 2.5%
Salary increases – 3.8%
Investment rate of return – 7.0% compounded annually, net of investment expense, including inflation
Mortality – Based on ERS experience from April 1, 2010 – March 31, 2015 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014
Discount rate – 7.0%

The long-term expected rate of return on the System's pension plan investments was determined in accordance with Actuarial Standard of Practice No. 27, *Selection of Economic Assumptions for Measuring Pension Obligations*. Consideration was given to expected future real rates of return (expected returns, net of pension plan investment expense and inflation) for each major asset class as well as historical investment data and plan performance.

Investment Asset Allocation

The System's best estimate of the arithmetic real rates of return for each major asset class and the System's target asset allocations as of the applicable valuation dates are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	36%	4.55%
International equities	14%	6.35%
Private equities	10%	7.50%
Real estate	10%	5.55%
Absolute return strategies	2%	3.75%
Opportunistic portfolio	3%	5.68%
Real assets	3%	5.29%
Bonds and mortgages	17%	1.31%
Cash	1%	-0.25%
Inflation-Indexed bonds	4%	1.25%
	100%	

Discount Rate

The discount rate projection of cash flows assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 — RETIREMENT PLAN AND RELATED BENEFITS (Continued)

Discount Rate (Continued)

The following table presents the Commission's proportionate share of its net pension liability calculated using the discount rate of 7.0% and the impact of using a discount rate that is 1% higher or lower than the current rate.

	1.0% Decrease	7.0%	1.0% Increase
Commission's proportionate share of the ERS net pension liability (asset)	$ 977,367	$ 129,174	$ (588,363)

Other Information

Other information on the Commission's net pension liability is as follows:

	2018	2017	2016	2015
Commission's proportion of the System's net pension liability	0.0040024%	0.003742%	0.0039534%	0.0037280%
Commission's proportionate share of the System's net pension liability	$ 129,174	$ 351,607	$ 634,538	$ 125,953
Commission's covered-employee payroll	$ 1,024,804	$ 997,333	$ 1,000,106	$ 1,018,736
Commission's proportionate share of the System's net pension liability as a percentage of its covered-employee payroll	12.60%	35.25%	63.45%	12.36%
Plan fiduciary net position as a percentage of the total pension liability	98.24%	94.70%	90.70%	97.90%

Actuarial data prior to 2015 is unavailable.

A schedule of Commission's contributions to the System is as follows:

March 31	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	$ 160,846	$ 157,484	$ 186,364	$ 234,306	$ 180,550	$ 151,392	$ 119,125	$ 111,408	$ 20,025
Contribution in relation to the contractually required contribution	(160,846)	(157,484)	(186,364)	(234,306)	(180,550)	(151,392)	(119,125)	(111,408)	(20,025)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commission's covered-employee payroll	$ 1,024,804	$ 997,333	$ 1,000,106	$ 1,018,746	$ 861,386	$ 726,234	$ 711,985	$ 739,670	$ 544,045
Contributions as a percentage of covered-employee payroll	15.70%	15.79%	18.63%	23.00%	20.96%	20.85%	16.73%	15.06%	3.68%

Actuarial data prior to 2010 is unavailable.

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 uses GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) to recognize the total OPEB liability, deferred outflows and deferred inflows of resources, OPEB expense, and information about and changes in the total OPEB liability.

NOTE 8 — OTHER POST-EMPLOYMENT BENEFITS *(Continued)*

Plan Description and Funding Policy

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.

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.

Employees Covered by Benefit Terms

At January 1, 2018, the actuarial valuation date, the following employees were covered by benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	6
Inactive employees or beneficiaries entitled to but not yet receiving benefit payments	-
Active employees	15
	21

Total OPEB Liability

The Commission's total OPEB liability of $3,236,517 was measured as of January 1, 2018 and was determined by an actuarial valuation as of January 1, 2018.

Actuarial assumptions and other inputs

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 total OPEB liability in the January 1, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate as of January 1, 2018 – 3.44%
Discount rate as of January 1, 2017 – 2.50%
Healthcare cost trend rates – 7.50% for 2018 (decreasing to an ultimate rate of 5.00% by 2023)

The discount rate was based on the Bond Buyer General Obligation 20-year municipal bond index.

Mortality rates were based on the Society of Actuaries' RP-2014 mortality tables with adjustments for mortality improvements based on MP-2014 scales.

NOTE 8 — OTHER POSTEMPLOYMENT BENEFITS (Continued)

Changes in the total OPEB liability

Changes in the total OPEB liability were as follows:

	Total OPEB Liability
Balance at January 1, 2017, restated	$ 4,575,746
Changes for the year:	
Service cost	92,495
Interest	113,950
Changes of benefit terms	-
Differences between expected and actual experience	(820,236)
Changes of assumptions or other inputs	(597,433)
Benefit payments	(128,005)
Net changes	(1,339,229)
Balance at January 1, 2018	$ 3,236,517

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current discount rate:

	1.0% Decrease (2.44%)	Discount Rate (3.44%)	1.0% Increase (4.44%)
Total OPEB Liability	$ 3,806,909	$ 3,236,517	$ 2,796,788

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the total OPEB liability of the Commission, as well as what the Commission's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower or 1% higher than the current healthcare cost trend rates:

	1.0% Decrease (7% decreasing to 4%)	Discount Rate (8% decreasing to 5%)	1.0% Increase (9% decreasing to 6%)
Total OPEB Liability	$ 2,801,309	$ 3,236,517	$ 3,787,904

NOTE 8 — OTHER POSTEMPLOYMENT BENEFITS (Continued)

OPEB Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to OPEB

For the year ended December 31, 2018, the Commission recognized OPEB expense of $88,773. At December 31, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 752,153
Changes of assumptions or other inputs	-	547,844
Expected benefit payments subsequent to the measurement date	137,225	-
Total	$ 137,225	$ 1,299,997

Amounts reported as deferred inflows of resources will be recognized in OPEB expense as follows:

Year ended August 31,	Deferred Inflows of Resources
2018	$ (117,672)
2019	(117,672)
2020	(117,672)
2021	(117,672)
2022	(117,672)
Thereafter	(711,637)
	$ (1,299,997)

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, 2018 were as follows:

2019	$ 2,880,000
2020	2,865,000
2021	2,808,000
2022	2,572,000
2023	1,867,000
Thereafter	14,916,000
	$ 27,908,000

NOTE 10 — WATERFRONT DEVELOPMENT COSTS

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 Capitalize Albany Corporation (CAC), 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, CAC and the Commission entered into a shared use and lease agreement, under which CAC 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 CAC. Accordingly, all current improvements made to the project by the Commission are expensed when incurred by the Commission.

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 CAC'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/CAC bonds are 25 year variable rate demand obligations, currently bearing interest at approximately 1.96%, 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 and guaranteed by the Commission. Under the letter of credit, any grant proceeds received for the project are required to reduce the outstanding bonds. The letter of credit requires future principal debt reduction payments, ranging from $200,000 in 2019 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	Amount
2019	$ 200,000
2020	210,000
2021	220,000
2022	225,000
2023	240,000
2024	255,000
	$ 1,350,000

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 impact the Commission's annual lease obligation.

During 2018 and 2017, the Commission's total lease cost, project improvement cost, and other operating expenses related to the waterfront development project approximated $271,000 and $250,000, respectively. These costs are included in the Commission's statements of revenues and expenses.

NOTE 11 — 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.

Municipal Support Agreement Costs

In 2018, the Commission entered into Memorandums of Understanding (MoU) with the City of Albany under which the Commission is required to fund annualized municipal support to the City through December 31, 2021. The 2018 expense associated with the MoU, in the amount of approximately $145,000, is included in the statements of revenues and expenses. The Commission incurred no support agreement costs in 2017. The expense for the municipal support for the remaining term of this agreement has not been determined, but is based on the assessed value of the Commission owned tax-exempt property as determined by the annual assessment roll of the City of Albany.

Federal and State Grants

The Commission is currently undertaking a series of projects to finalize maritime infrastructure improvements which will enhance the Port's heavy lift and project cargo handling capabilities. The total projects are estimated to cost approximately $49,630,000. As part of the project, the Commission has secured federal grant funding of approximately $17,630,000 and state grant funding of approximately $19,000,000. Federal grant revenue of approximately $2,645,000 was earned in 2018 (approximately $1,226,000 in 2017). State grant revenue of approximately $11,792,000 and $6,610,000 was in earned in 2018 and 2017, respectively. These grant revenues are included in capital grant funding in the statements of revenues and expenses and changes in net position. The projects are expected to be completed in 2021.

The Commission's grants 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.

OTHER INFORMATION

ALBANY PORT DISTRICT COMMISSION
SCHEDULES OF PAYROLL AND RELATED COSTS AND OTHER OPERATING EXPENSES
Years ended December 31, 2018 and 2017

	2018	2017
PAYROLL AND RELATED COSTS		
Administrative	**$ 957,360**	$ 912,314
Maintenance crews and supervisor	**424,872**	379,792
Security	**422,374**	388,855
Pension and other benefit costs	**472,033**	513,314
OPEB expense	**88,773**	312,568
Payroll taxes	**132,309**	126,225
Total payroll and related costs	**$ 2,497,721**	$ 2,633,068

	2018	2017
OTHER OPERATING EXPENSES		
Security	**$ 22,540**	$ 30,349
Utilities	**32,697**	49,122
City water	**8,812**	8,075
Advertising and promotion	**46,813**	74,310
Office supplies and expenses	**71,570**	75,879
Equipment operating expense	**27,446**	97,549
Other expenses	**120,443**	120,583
Total other operating expenses	**$ 330,321**	$ 455,867

INDEPENDENT AUDITOR'S 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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, 2018, and have issued our report thereon dated March 27, 2019.

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.*

Purpose of This Report

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

UHY LLP

Albany, New York
March 27, 2019