

**PORT OF OSWEGO AUTHORITY**

**FINANCIAL STATEMENTS**

**- MARCH 31, 2011 -**

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PORT OF OSWEGO AUTHORITY

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## **INDEPENDENT AUDITORS' REPORT**

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### **BOARD OF MEMBERS PORT OF OSWEGO AUTHORITY OSWEGO, NEW YORK**

We have audited the accompanying basic financial statements of the Port of Oswego Authority, a component unit of the State of New York, as of and for the years ended March 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Port of Oswego Authority as of March 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 16, 2011 on our consideration of the Port of Oswego Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 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.

Sovie & Bowie C.P.A., P.C.

June 16, 2011

**PORT OF OSWEGO AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MARCH 31, 2011**

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Port of Oswego Authority's financial performance provides an overview of the Port's financial activities for the fiscal year ended March 31, 2011. Please read it in conjunction with the Port's basic financial statements, which begin on page 7.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows (on pages 7 through 9) provide information about the activities of the Port and present a longer-term view of the Port's finances.

**NET ASSETS**  
**MARCH 31, 2011, 2010 AND 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 487,903	\$ 857,268	\$ 1,480,066
Other Asset	83,707	83,707	-
Other Asset – Property Held for Lease	4,657,963	2,507,046	2,599,065
Capital Assets	<u>8,078,431</u>	<u>8,586,847</u>	<u>7,448,138</u>
Total Assets	<u>13,308,004</u>	<u>12,034,868</u>	<u>11,527,269</u>
Long Term Debt	5,815,560	4,359,160	4,298,432
Other Long Term Liabilities	838,177	613,879	389,025
Current Liabilities	<u>708,543</u>	<u>1,002,692</u>	<u>332,904</u>
Total Liabilities	<u>7,362,280</u>	<u>5,975,731</u>	<u>5,020,361</u>
Net Assets:			
Invested in Capital Assets, Net of Related debt	6,473,386	6,054,412	5,624,043
Unrestricted	<u>(527,662)</u>	<u>4,725</u>	<u>882,865</u>
Total Net Assets	<u>\$5,945,724</u>	<u>\$6,059,137</u>	<u>\$6,506,908</u>

The total net assets of the Port decreased by 2 percent (\$5,945,724 in 2011 compared to \$6,059,137 in 2010).

The total net assets of the Port decreased by 7 percent (\$6,059,137 in 2010 compared to \$6,506,908 in 2009).

**PORT OF OSWEGO AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MARCH 31, 2011**

**CHANGES IN NET ASSETS  
YEARS ENDED MARCH 31, 2011, 2010 AND 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenue			
Operating Revenue	\$3,208,413	\$2,234,677	\$1,683,848
Non-operating Revenue	<u>403,367</u>	<u>357,876</u>	<u>877,522</u>
Total Revenue	<u>3,611,780</u>	<u>2,592,553</u>	<u>2,561,370</u>
Expenses			
Operating Expenses	2,763,480	2,510,642	1,818,357
Other Operating Expenses - Depreciation	660,277	578,728	519,384
Other Operating Expenses – OPEB Expense	264,888	252,598	240,854
Non-operating Expenses	<u>51,091</u>	<u>18,631</u>	<u>219,036</u>
Total Expenses	<u>3,739,736</u>	<u>3,360,599</u>	<u>2,797,631</u>
Loss Before Capital Contributions	(127,956)	(768,046)	(236,261)
Capital Contributions	14,543	320,275	752,300
Net Assets – Beginning of Year	<u>6,059,137</u>	<u>6,506,908</u>	<u>5,990,869</u>
Net Assets – End of Year	<u>\$5,945,724</u>	<u>\$6,059,137</u>	<u>\$6,506,908</u>

Total revenue increased by 39 percent (\$3,611,780 in 2011 compared to \$2,592,553 in 2010). Total expenses increased by 11 percent (\$3,739,736 in 2011 compared to \$3,360,599 in 2010).

Total revenue increased by 1 percent (\$2,592,553 in 2010 compared to \$2,561,370 in 2009). Total expenses increased by 20 percent (\$3,360,599 in 2010 compared to \$2,797,631 in 2009).

**CAPITAL ASSETS AND PROPERTY HELD FOR LEASES  
NET OF ACCUMULATED DEPRECIATION  
MARCH 31, 2011, 2010 AND 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital Assets	\$ 8,078,431	\$ 8,586,847	\$ 7,448,138
Property Held For Leases	<u>4,657,963</u>	<u>2,507,046</u>	<u>2,599,065</u>
Total	<u>\$12,736,394</u>	<u>\$11,093,893</u>	<u>\$10,047,203</u>

At March 31, 2011 total capital assets and property held for leases increased by 15 percent or \$1,642,501 over 2010.

At March 31, 2010 total capital assets and property held for leases increased by 10 percent or \$1,046,690 over 2009.

**PORT OF OSWEGO AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MARCH 31, 2011**

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**LONG-TERM DEBT**  
**MARCH 31, 2011, 2010 AND 2009**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Notes and Loan Payable	\$ 2,068,637	\$ 553,188	\$ 517,234
New York State Retirement System	14,121	7,039	8,747
Advances due to State of New York	3,905,926	3,905,926	3,905,926
Capital Lease Obligation	73,500	93,239	--
Less current portion due within one year	<u>(246,624)</u>	<u>(200,232)</u>	<u>(133,475)</u>
Total	<u>\$ 5,815,560</u>	<u>\$ 4,359,160</u>	<u>\$ 4,298,432</u>

The New York State Advance agreement expired on March 31, 2005. The Port is in the process of negotiating a new agreement.

**The Mission of the Port of Oswego Authority is to Serve as an International Transportation and Commerce Center of Excellence**

*Increase in revenue tons shipped through the Port of Oswego  
Increase longshoremen hours  
Maximize marina activity through increases in slip rental, transient movement, and fuel sales  
Be a center of excellence in efficiency and safety*

With new Key Performance Indicators (KPI) in place to serve as a guiding force, the Port of Oswego Authority experienced a strong FY 2010-2011, and met or exceeded all measurable indicators. Under the direction of the Chairman, Dr. Terrence Hammill, and the entire Board of Directors, the Port Authority completed the fiscal year with the highest level of revenue in the history of the organization.

The Port of Oswego serves as a critical transportation link for several companies seeking domestic and international shipment of their cargoes. In addition, the Port continues to play a critical role in the economic development opportunities of the region.

With the conversion of the Port owned marinas from private operation to Port Authority control complete, the Board of Directors embarked on an ambitious capital program with the completion of nearly \$2.5 million in upgrades with the rehabilitation of the bulkhead in the Oswego Marina and the installation of a new docking system and wave attenuator in the International Marina. The second year of marina operations proved successful with increased fuel sales and transient moorings to go along with higher than expected seasonal rentals.

Expanded cargo operations continued for a second straight year with a surge led by increased aluminum shipments. Thirteen integrated tug and barge units (ITB) called at the Port of Oswego during the season with products for shippers such as Trafigura AG, Muribeni, Glencore and Rio Tinto/Alcan. A vessel call from Spain saw the largest single pick ever to move through the Port of Oswego with the movement of a 400-ton transformer en route to the nuclear power plant at Nine Mile Point. In addition, the Port of Oswego is receiving containers of magnesium scrap from Belgium, arriving through ports in Montreal and NY/NJ. Agriculture shipments continued at a strong pace, and the Port of Oswego Authority and Perdue Agribusiness negotiated a long term lease agreement which would keep the commodity trading company at the Port of Oswego for another decade.

**PORT OF OSWEGO AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
FOR THE YEAR ENDED MARCH 31, 2011**

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The Port's role as a true multi-modal facility continued with the expanded use of rail infrastructure. Shipments of corn, soybean, potash, aluminum, and windmill components complemented traditional truck and waterborne movements with more than 750 rail cars shipped through the Port of Oswego.

The barrel building, which suffered a catastrophic failure in January 2010, was reconstructed and back in service by November. Within weeks of reopening, the facility was filled to capacity with locally grown soybeans and corn, and it will continue to serve the storage needs of local farmers well into the future.

The Port of Oswego Authority will continue to invest in facilities and equipment to serve as the "Port of Choice" in the upstate region, and the leadership of the Board of Directors and dedication of the staff and longshoremen will pave the way for a successful future. From assisting manufacturing companies in meeting their logistics management solutions to providing the best customer service to the boating community, the Port stands poised to be an economic development catalyst for Oswego County and beyond.

PORT OF OSWEGO AUTHORITY

STATEMENTS OF NET ASSETS  
AS OF MARCH 31, 2011 AND 2010

ASSETS

	<u>2011</u>	<u>2010</u> (As Restated)
<b><u>Current Assets:</u></b>		
Cash and cash equivalents	\$ 74,151	\$ 476,602
Certificates of deposit	162,278	160,459
Certificates of deposit -reserved for marina improvements	15,133	15,003
Accounts receivable	200,227	112,895
Insurance claim receivable	17,622	73,743
Prepaid expenses	<u>18,492</u>	<u>18,566</u>
Total Current Assets	<u>487,903</u>	<u>857,268</u>
 <b><u>Capital Assets - Net of Accumulated Depreciation:</u></b>		
Construction work in progress	60,461	962,290
Land and land improvements	3,977,688	3,309,347
Buildings and improvements	3,673,602	3,883,793
Equipment and software	<u>366,680</u>	<u>431,417</u>
Capital Assets - Net of Accumulated Depreciation	<u>8,078,431</u>	<u>8,586,847</u>
 <b><u>Other Assets:</u></b>		
Note receivable	83,707	83,707
Property held for leases (net of accumulated depreciation of \$1,555,885 and \$1,451,583 respectively)	<u>4,657,963</u>	<u>2,507,046</u>
Total Other Asset	<u>4,741,670</u>	<u>2,590,753</u>
 Total Assets	 <u>\$ 13,308,004</u>	 <u>\$ 12,034,868</u>

The accompanying notes are an

**LIABILITIES AND NET ASSETS**

	<u>2011</u>	<u>2010</u> (As Restated)
<b><u>Current Liabilities:</u></b>		
Accounts payable	\$ 165,035	\$ 538,663
Accrued payroll and related charges	52,141	34,816
Sales tax payable	-	40
Retainage payable	16,600	30,817
Accrued vacation compensation	18,267	17,381
Line of credit	149,434	66,661
Deferred revenue	60,442	114,082
Current portion of long-term debt	<u>246,624</u>	<u>200,232</u>
Total Current Liabilities	<u>708,543</u>	<u>1,002,692</u>
<b><u>Long-Term Liabilities:</u></b>		
Long-Term Debt:		
New York State Retirement System	14,121	7,039
Mortgage payable	47,145	81,490
Note payable	304,057	353,687
Loan payable	67,435	118,011
Note payable	1,650,000	-
Capital lease obligation	73,500	93,239
Due State of New York	<u>3,905,926</u>	<u>3,905,926</u>
	6,062,184	4,559,392
Less current portion	<u>246,624</u>	<u>200,232</u>
Total Long-Term Debt	<u>5,815,560</u>	<u>4,359,160</u>
Other Long-Term Liability:		
Postemployment healthcare (OPEB) liability	<u>838,177</u>	<u>613,879</u>
Total Long-Term Liabilities	<u>6,653,737</u>	<u>4,973,039</u>
Total Liabilities	<u>7,362,280</u>	<u>5,975,731</u>
<b><u>Net assets:</u></b>		
Invested in capital assets, net of related debt	6,473,386	6,054,412
Unrestricted	<u>(527,662)</u>	<u>4,725</u>
Total Net Assets	<u>5,945,724</u>	<u>6,059,137</u>
Total Liabilities and Net Assets	<u>\$ 13,308,004</u>	<u>\$ 12,034,868</u>

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**YEARS ENDED MARCH 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u> (As Restated)
<b><u>Operating Revenue:</u></b>		
Rentals	\$ 652,304	\$ 486,127
Marina operating revenue	734,170	624,211
Port operating fees	<u>1,821,939</u>	<u>1,124,339</u>
Total Operating Revenue	<u>3,208,413</u>	<u>2,234,677</u>
<b><u>Operating Expenses:</u></b>		
Salaries and wages	1,062,168	927,838
Payroll taxes and fringe benefits	246,403	210,401
Annual OPEB expense	264,888	252,598
Employee retirement and pension expense	345,772	243,197
Travel	16,689	19,488
Automotive	47,920	34,165
Office supplies and expense	11,030	12,116
Insurance	120,144	102,217
Advertising and printing	3,324	19,124
Telephone and postage	16,588	17,470
Utilities	54,527	54,933
Household supplies	10,873	11,073
Special supplies and expense	56,509	39,610
Community support	8,170	18,125
Metered water	36,970	46,517
Professional fees	34,972	46,919
Repairs and maintenance	66,138	228,295
Rentals	170,599	159,468
Contract trucking	104,169	13,563
Marina supplies and expense	349,706	304,339
Bad debt expense	809	1,784
Depreciation	<u>660,277</u>	<u>578,728</u>
Total Operating Expenses	<u>3,688,645</u>	<u>3,341,968</u>
Total Operating Loss	<u>(480,232)</u>	<u>(1,107,291)</u>
<b><u>Nonoperating Revenue (Expenses):</u></b>		
Gain on sale of capital assets	-	159,670
Insurance claim revenue	401,128	173,743
Contributed equipment	-	16,921
Interest expense	(51,091)	(18,631)
Interest income	2,239	7,542
Total Nonoperating Revenue (Expenses)	<u>352,276</u>	<u>339,245</u>
Loss before Capital Contributions	(127,956)	(768,046)
Capital Contributions	14,543	320,275
Net assets - beginning of year	<u>6,059,137</u>	<u>6,506,908</u>
Net assets - end of year	<u>\$ 5,945,724</u>	<u>\$ 6,059,137</u>

The accompanying notes are an integral part of the financial statements.

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED MARCH 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
<b><u>Operating Activities:</u></b>		
Receipts from customers	\$ 3,067,441	\$ 2,325,582
Payments to suppliers	(1,479,404)	(655,223)
Payments to employees	(1,637,841)	(1,404,571)
Net cash provided (used) for operating activities	<u>(49,804)</u>	<u>265,788</u>
<b><u>Non-capital Financing Activities:</u></b>		
Insurance claim revenue	<u>383,506</u>	<u>100,000</u>
Net cash provided by non-capital financing activities	<u>383,506</u>	<u>100,000</u>
<b><u>Capital and Related Financing Activities:</u></b>		
Capital contributions	14,543	320,275
Sale of capital assets	-	159,670
Purchases of capital assets / construction in progress	(2,257,405)	(1,480,895)
Proceeds from capital debt and line of credit	2,141,580	184,985
Principal paid on capital debt and line of credit	(563,096)	(118,267)
Interest paid on capital debt and line of credit	(74,014)	(18,631)
Net cash used for capital and related financing activities	<u>(738,392)</u>	<u>(952,863)</u>
<b><u>Investing Activities:</u></b>		
Maturities of certificates of deposit	-	772,807
Interest earned	<u>2,239</u>	<u>7,542</u>
Net cash provided (used) for investing activities	<u>2,239</u>	<u>780,349</u>
Net increase (decrease) in cash	(402,451)	193,274
Cash at beginning of year	<u>476,602</u>	<u>283,328</u>
Cash at end of year	<u>\$ 74,151</u>	<u>\$ 476,602</u>
<b>Reconciliation of operating loss to net cash provided for operating activities:</b>		
Operating loss	\$ (480,232)	\$ (1,107,291)
Depreciation	660,277	578,728
Bad debt expense	809	1,784
Annual OPEB expense	264,888	252,598
(Increase) decrease in assets:		
Accounts receivable	(86,523)	109,344
Note receivable	-	(83,707)
Prepaid expenses	74	7,664
Increase (decrease) in liabilities:		
Accounts payable	(373,628)	435,043
Accrued payroll and related charges	17,325	8,748
Accrued vacation compensation	886	(2,431)
Sales tax payable	(40)	40
Deferred revenue	(53,640)	65,268
Net cash provided (used) for operating activities	<u>\$ (49,804)</u>	<u>\$ 265,788</u>

The accompanying notes are an integral part of the financial statements.

**NOTES TO FINANCIAL STATEMENTS**  
**MARCH 31, 2011**

A. **Summary of Significant Accounting Policies:**

**Financial Reporting Entity**

The accompanying financial statements include the combined operations of the Port Facilities Development Fund established under the Port of Oswego Authority Act, as amended by Section 4, Chapter 917, of the Laws of 1960 of the State of New York and the Port of Oswego Fund established under Section 1362, Chapter 917, of the Laws of 1960 of the State of New York. Properties and income of the Port of Oswego Authority are exempt from taxation.

The Authority is considered a component unit of the State of New York. Board Members are appointed by the Governor of the State and the Authority's budgets must be approved by the State.

**Basis of Accounting**

The Authority operations consist of a Port Fund, which is a proprietary type fund. Proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund equity is classified as net assets. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

**Use of FASB Pronouncements:**

The Port of Oswego Authority has elected to apply all FASB pronouncements issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements and that are developed for business enterprises.

**Operating Revenues and Expenses:**

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

**Receivables**

Accounts receivable are stated at net estimated realizable value by writing off bad debts as they are determined to be uncollectible. An allowance for bad debts is not maintained. An allowance will be established when an event occurs in the future that would necessitate a reserve. Trade accounts receivable are carried at their estimated collectible amounts. Trade credit is generally extended on a short-term basis; thus trade receivables do not bear interest.

On August 17, 2009, The Port of Oswego Authority signed a non-interest bearing promissory note in the amount of \$83,707 with Pleasant Beach, LLC for a period of five years and receivable no later than May 31, 2014. The amount represents outstanding accounts receivables in arrears from the prior year.

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**A. Summary of Significant Accounting Policies - contd.:**

**Receivables – contd.**

On April 8, 2011, a security agreement was signed by the Port of Oswego Authority and Pleasant Beach, LLC to secure the note described in the previous paragraph with collateral to include all property, goods, and equipment in the Patz Restaurant.

Grants receivable from federal and state agencies are recorded at the time the right to receive such funds occurs.

**Reclassifications**

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

**Prepaid Expenses**

Expenses paid in advance are recorded as an asset and are written off over the period of benefit.

**Capital Assets**

The pier, buildings, machinery and land are stated at replacement cost, less physical deterioration as established at March 31, 1958 by an independent appraisal firm. These fixed assets were fully depreciated in a prior period. The water line is stated at a nominal value as the Port of Oswego Authority did not directly incur any cost in connection with this project. Title to and responsibility for the maintenance of the water line rests with the Port of Oswego Authority. All other facilities are stated at cost. The Port of Oswego Authority capitalizes all expenditures for property and equipment in excess of \$1,000 and an estimated useful life of one year or more. Expenditures for maintenance, repairs, renewals and improvements which do not materially extend the useful lives of the assets are charged to operations when incurred.

Grants received from other governmental agencies to partially finance capital projects are shown as capital contributions and depreciation is recorded as a reduction to the invested in capital assets, net asset account.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets. Full recognition of gains and losses on disposal is included in the statement of operations. Buildings and improvements are assigned lives of 10 to 60 years, equipment 5 to 10 years, furniture and fixtures 5 to 10 years, and computer software 3 years.

Accumulated depreciation of capital assets consists of the following:

	March 31,	
	<u>2011</u>	<u>2010</u>
Land improvements	\$ 2,546,111	\$ 2,265,064
Buildings and improvements	4,465,922	4,255,731
Equipment	1,479,599	1,414,862
Computer software	<u>22,218</u>	<u>22,218</u>
<b>Total</b>	<b><u>\$ 8,513,850</u></b>	<b><u>\$ 7,957,875</u></b>

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**A. Summary of Significant Accounting Policies - contd.:**

**Retirement Benefit Plans**

Substantially all full-time employees of the Port of Oswego Authority participate in the New York State Retirement System. The Port accrues this benefit based upon estimated rates furnished by the Retirement System and adjustments based upon actual payroll costs. Costs are funded as they are billed by the Retirement System. See Note F for additional information.

The Port of Oswego Authority also contributes to the International Longshoremen's Association Pension Fund on behalf of members of the Association. Benefits are based upon rates per hour worked by members for the Port of Oswego Authority.

**Compensated Absences**

The Authority allows employees to accumulate unused sick leave to a maximum of 120 days. Earned vacation time can be accumulated up to 30 days in any single year. Employees may carry 10 vacation days from one year to the next or they may receive pay for unused vacation time. Upon termination, unused sick leave shall not have any monetary value, while vacation time accumulated up to 30 days will be paid to the employee.

As of March 31, 2011 and 2010, the liability for accrued vacation leave was \$18,267 and \$17,381 respectively.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

For purposes of the Statements of Cash Flows, the Authority considers all short-term, highly liquid investments with an original maturity of three months or less to be cash equivalents.

**B. Cash:**

The Authority's investment policies are governed by state statutes. The Authority's monies must be deposited in FDIC-insured commercial banks or trust companies located within the state. The executive director is authorized to use demand and time accounts and certificates of deposit. Permissible instruments include obligations of the United States of America, obligations guaranteed by agencies of the United States of America and obligations of the State of New York.

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

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**B. Cash- contd.:**

Deposits are valued at cost or cost plus interest and are categorized as either:

- (1) Insured or collateralized with securities held by the entity or by its agent in the entity's name;
- (2) Collateralized with securities held by the pledging financial institution's trust department or agency in the entity's name; or
- (3) Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, its trust department, or agent but not in the entity's name.)

Total financial institution (bank) balances at March 31, 2011 per the banks were \$306,285. These deposits are categorized as follows:

<u>(1)</u>		<u>(2)</u>		<u>(3)</u>
\$306,285	\$	--	\$	--

The Port of Oswego maintained a separate certificate of deposit for money reserved for capital improvements and repairs to Oswego Marina as authorized by the board of members. The amount reserved at March 31, 2011 and 2010 is \$15,133 and \$15,003 respectively.

**C. Construction Work in Progress:**

As of March 31, 2011, construction work in progress of \$60,461 consists of two projects.

**D. Short-Term Debt:**

On September 18, 2003, Port of Oswego Authority entered into an agreement with Key Bank to secure a \$500,000 revolving line of credit. Interest is calculated at the Bank's prime rate. The interest rate at March 31, 2011 is 3.25%. The line of credit is unsecured and renewed on an annual basis. Line of credit proceeds were used to purchase a vehicle.

On March 8, 2010, the Port entered into a note agreement with Pathfinder Bank to secure a \$500,000 revolving line of credit. Advances are to be used to fund short-term working capital needs of the Port. The line of credit is unsecured and renewed on an annual basis. The interest rate at March 31, 2011 is 5%.

	Balance 3/31/10	Additions	Payments	Balance 3/31/11
Line of credit	<u>\$ 66,661</u>	<u>\$ 491,579</u>	<u>\$ 408,806</u>	<u>\$ 149,434</u>

**E. Long-Term Debt:**

Long-term debt activity for the year ended March 31, 2011 was as follows:

	Balance at <u>3/31/10</u>	Additions	Payments	Balance at <u>3/31/11</u>
Due State of New York	\$ 3,905,926	\$ ---	\$ ---	\$3,905,926
Note payable (Pathfinder Bank)	---	1,650,000	---	1,650,000
Note payable	353,687	---	49,630	304,057
Mortgage payable	81,490	---	34,345	47,145
NYS retirement system	7,039	8,791	1,709	14,121
Loan payable	118,011	---	50,576	67,435
Capital lease obligation	<u>93,239</u>	---	<u>19,739</u>	<u>73,500</u>
Total Long-Term Debt	\$4,559,392	\$1,658,791	\$ 155,999	\$6,062,184
Less amount due within one year	<u>(200,232)</u>			<u>(246,624)</u>
	<u>\$ 4,359,160</u>			<u>\$5,815,560</u>

Long-term debt consists of the following at March 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
1. Due to State of New York for first instance advances:		
a) Balance of \$4,000,000 appropriated under Chapter 917, Section 9, Laws of 1960	\$3,404,274	\$3,404,274
b) Balance of \$550,000 appropriated under Chapter 54, Section 2, Laws of 1978	500,000	500,000
c) Balance of \$400,000 appropriated under Chapter 54, Section 2, Laws of 1981	<u>1,652</u>	<u>1,652</u>
	3,905,926	3,905,926
Less - Current Portion	<u>(50,000)</u>	<u>(50,000)</u>
Long-Term Portion	\$3,855,926	\$3,855,926

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**E. Long-Term Debt – contd.**

1. Due State of New York for first instance advances – contd.:

As of April 5, 1996 a fifth supplemental agreement extending the repayment terms of the above referenced advances was passed by the legislature. The terms of the fifth supplemental agreement provide that the Authority will make a principal payment of \$75,000 to the State of New York on or before March 1, 1996. The amount was subsequently paid after March 31, 1996. Thereafter, the Authority shall make a payment of \$50,000 annually on or before March 1, 1997 and each year thereafter in the amount of \$50,000 to the State. This agreement shall be considered effective for the period April 1, 1990 through March 31, 2005. The terms and conditions of this agreement will continue until a new agreement is executed. Principal payment of \$50,000 was made during the year ended March 31, 2010. No principal payments were made for the years ended March 31, 2011 and 2010. The repayment agreement provides for a deferral of principal for which a waiver was requested by the Authority.

2. Note Payable – Marina Improvements:

The Port entered into a commercial loan agreement on November 17, 2006 in the amount of \$500,000 from Pathfinder Bank to fund capital improvements to the east side marina. The terms include repayment of the loan in monthly payments of \$4,777.20 including principal and interest. Interest is calculated at 70.5% of the prime rate. The interest rate at March 31, 2011 is 2.291%. The loan is scheduled to mature on November 17, 2016. Collateral for the loan is the assignment of any and all lease payments from tenants of the east side marina. The Port shall maintain a debt coverage ratio as defined in the commercial loan agreement. The Port met the debt covenant requirement for March 31, 2011. The outstanding balance at March 31, 2011 and 2010 is \$304,057 and \$353,687, respectively.

3. Mortgage Payable - Fish and Wildlife Building:

The Port of Oswego Authority signed a promissory note with Key Bank on August 23, 2001 to borrow \$300,000 to fund the construction of an addition to a building. The note included a twelve-month draw period through August 2002. The terms include 120 monthly principal and interest payments commencing September 2002. Interest is calculated at 70.5% of the bank's prime rate. The interest rate at March 31, 2011 is 2.29125%. The current monthly payment is \$2,989.35. The note is scheduled to mature on July 31, 2012. The collateral for the loan is the assignment of a lease between the Port of Oswego Authority and General Service Administration. The outstanding balance at March 31, 2011 and 2010 is \$47,145 and \$81,490, respectively.

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**E. Long-Term Debt – contd.**

4. New York State Retirement System:

The Port elected to amortize amount due to New York State Retirement System in the amount of \$13,113 for the fiscal year ending March 31, 2005. The amortized amount will be repaid over a ten year period with an interest rate of 5%. The amount is due to mature on March 31, 2015. The outstanding balance at March 31, 2011 and March 31, 2010 is \$5,330 and \$7,039, respectively.

The Port elected to amortize an amount due of \$8,791 to the New York State Retirement System for the fiscal year ending March 31, 2011. The amortized amount will be repaid in equal annual installments over a ten-year period. The interest rate is five percent. The amount is due to mature on February 1, 2021. The outstanding balance at March 31, 2011 and 2010 is \$8,791 and \$0, respectively.

5. Alliance Bank – loan payable:

On February 1, 2010, the outstanding balance on the line of credit at Alliance Bank was converted to a thirty month loan. The maturity date is August 1, 2012. The monthly payments consist of fixed principal payment of \$4,214.67 and interest calculated at 3.75%. The outstanding balance at March 31, 2011 and March 31, 2010 is \$67,435 and \$118,011, respectively.

6. Pathfinder Bank – note payable:

The Port entered into a commercial loan agreement on June 2, 2010 in the amount of \$1,650,000 from Pathfinder Bank to install new docks and a floating breakwater system within the international marina. The terms include interest only payments during the twelve-month draw period through July 2, 2011. The terms include 180 monthly principal and interest payments commencing August 2, 2011. The lender will extend the interest only payments until such time that the sale of the international marina is finalized. The interest rate is 4.10% for the first five years and then will adjust to a variable rate of the bank's prime rate plus a margin of .25%. Future estimated monthly-amortized payments will be \$12,900. The note is scheduled to mature on June 2, 2025. The collateral for the loan is the new docks and the floating breakwater system acquired with the loan proceeds. The Port is currently making interest only payments on the loan. The outstanding balance at March 31, 2011 and 2010 is \$1,650,000 and \$0, respectively.

7. Capital Lease Obligation:

The Port of Oswego Authority and Toyota Financial Services entered into a lease agreement dated July 7, 2010 in the amount of \$105,855 for the purchase of three forklifts. The lease is payable in sixty monthly payments of \$2,001 including principal and imputed interest of 5.07%. The lease expires on August 1, 2014. The outstanding principal balance at March 31, 2011 and March 31, 2010 is \$73,500 and \$93,239, respectively.

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**E. Long-Term Debt – contd.**

Capital Lease Obligation – contd.:

The future minimum lease payments under the above capital lease and the net present value of future minimum lease payments at July 7, 2009 are as follows:

Total minimum lease payments	\$120,060
Amount representing interest	<u>(14,205)</u>
Present value of net minimum lease payments	<u>\$105,855</u>

Maturities of long-term debt over the succeeding five years are estimated as follows:

Year Ending March 31,

2012	\$ 246,624
2013	246,423
2014	223,951
2015	212,616
2016	209,956
Thereafter	<u>4,922,614</u>
Total	<u>\$ 6,062,184</u>

**F. Pension Plan:**

General Information

The Port of Oswego Authority participates in the New York State and Local Employees' Retirement System (ERS). This system is a cost sharing multiple employer, public employee retirement system. The system offers a wide range of plans and benefits which are related to years of service, and final average salary, vesting of retirement benefits, death and disability.

PLAN DESCRIPTION

Employees' Retirement System (ERS)

The New York State and Local Employees' Retirement System provides retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York serves as a sole trustee and administrative head of the System.

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**F. Pension Plan – contd.:**

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the System and for the custody and control of its funds. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement System, Gov. Alfred E. Smith State Office Building, Albany, New York 12244.

**FUNDING POLICIES**

The System is noncontributory except for employees who joined the System after July 27, 1976 who contribute 3% of their salary. Employees in the system more than ten years are no longer required to contribute. The Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund. The Port of Oswego Authority is required to contribute at an actuarially determined rate.

The required contributions for the current year and the two preceding years are as follows:

Year Ending March 31,	
2011	\$ 61,960
2010	42,409
2009	40,949

**G. Operating Leases:**

The Authority is the lessor of various properties under operating leases expiring in various years through the year 2030.

The following is a summary of property held for lease at March 31, 2011 and 2010:

	<u>2011</u>	<u>2010 (Restated)</u>
Equipment	\$ 9,790	\$ ---
Land and land improvements	1,949,485	33,047
Buildings and improvements	4,254,573	3,925,582
Accumulated depreciation	<u>(1,555,885)</u>	<u>(1,451,583)</u>
	<u>\$ 4,657,963</u>	<u>\$ 2,507,046</u>

The future rentals include revenue from one lease that is not signed, however, the tenant is fulfilling their rental obligations and management anticipates the lease to be signed. Minimum future rentals on non-cancelable leases in the aggregate and for each of the next five years are as follows:

Year Ending March 31,	
2012	\$ 560,240
2013	451,496
2014	407,347
2015	412,475
2016	<u>383,032</u>
Total Minimum Future Rentals	<u>\$2,214,590</u>

**H. New York State Department of Transportation Grant:**

The Port of Oswego Authority is included as a recipient of funding under the Transportation Bond Act of 2005. The Port has been allocated \$2,000,000 in state grant funds for the rehabilitation of the barrel building, railroad upgrades, replacement of garage roof and paving. The State agrees to reimburse the Port 90% of eligible project costs in accordance with the terms of the grant agreement. As of March 31, 2011 and 2010 the Port has recognized and received \$0 and \$320,275 of grant revenue for completed projects.

**I. Equipment Leases:**

The Port of Oswego Authority leases a 2007 Volvo L220E wheel loader from GE Capital for a seventy-two month term that expires on November 17, 2013. The monthly rental payment is \$4,611.80. Rental expense for the above lease was \$55,342 and \$55,342 for the years ended March 31, 2011 and 2010, respectively.

The Port leases a Trackmobile Viking Railcar Mover from DeLage Landon Financial Services, Inc. for a eighty-four month term that expires on April 15, 2016. The monthly rental payment is \$3,210. Rental expense for the years ended March 31, 2011 and 2010 was \$38,520 and \$38,520, respectively.

The Port leases a 2009 Volvo Wheel Loader L220F from Volvo Financial Services Leasing Co. for a seventy-two month term that expires on July 29, 2015. The monthly rental payment is \$4,740. Rental expense for the years ended March 31, 2011 and 2010 was \$56,880 and \$42,660, respectively.

Future minimum lease payments under the operating lease as of March 31, 2011, are:

Year Ending March 31,

2012	\$ 150,742
2013	150,742
2014	132,294
2015	95,400
2016	<u>57,480</u>
	<u>\$ 586,658</u>

**J. Postemployment Healthcare Benefits:**

Plan Description – The Port of Oswego Authority contributes to the New York State Health Insurance Program (NYSHIP), an agent multiple – employer plan. The NYSHIP plan is a fully community rated medical plan that is open to active and retired employees or their spouses. The Board members of the Port of Oswego Authority govern the payment of postemployment health insurance benefits. Employees are eligible to retire at age fifty-five with five years of service.

Employer contributions – The Port currently pays for postemployment health care benefits on a pay-as-you-go basis. Retirees or their spouses are not required to make contributions.

**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**J. Postemployment Healthcare Benefits - contd.:**

The Port of Oswego Authority implemented GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively for the year ended March 31, 2010. The Port has used the GASB alternative measurement method to determine the other postemployment benefits (OPEB) calculations.

The Port does not fund the accrued net OPEB obligation.

The valuation involves 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.

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of the valuation and on the pattern of sharing of costs between the employer and plan members to that point. Calculations reflect a long-term perspective, so methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

	<u>3/31/2011</u>	<u>3/31/2010</u>
Annual OPEB Cost and Net OPEB Obligation		
Annual Required Contribution	\$ 275,372	\$ 259,458
Interest on Net OPEB Obligation	23,520	15,390
Adjustment to Annual Required Contribution	<u>(34,004)</u>	<u>(22,250)</u>
Annual OPEB Cost	264,888	252,598
Contributions made	<u>(40,590)</u>	<u>(27,744)</u>
Increase in Net OPEB Obligation	224,298	224,854
Net OPEB Obligation – beginning of year	<u>613,879</u>	<u>389,025</u>
Net OPEB Obligation – end of year	<u>\$ 838,177</u>	<u>\$ 613,879</u>
Annual OPEB Cost	\$ 264,888	\$ 252,598
Percentage of Annual OPEB Cost contributed	15.32%	10.98%
Net OPEB Obligation at end of year	838,177	613,879
Funded Status	<u>3/31/2011</u>	<u>3/31/2010</u>
Actuarial Accrued Liability (AAL)	\$2,320,443	\$2,134,688
Actuarial Value of Assets	---	---
Unfunded Actuarial Accrued Liability (UAAL)	2,320,443	2,134,688
Funded Ratio (Assets as a percentage of AAL)	0.00%	0.00%
Annual Covered Payroll	---	---
UAAL as a percentage of Covered Payroll	Not Available	Not Available

**J. Postemployment Healthcare Benefits - contd.:**

<b>Actuarial Methods and Assumptions</b>	<b><u>3/31/2011</u></b>	<b><u>3/31/2010</u></b>
Investment Rate of Return	4.00%	4.00%
Expected Return on Plan Assets	N/A	N/A
Expected Return on Employer's Assets	4.00%	4.00%
Rate of compensation increase	N/A	N/A
Inflation Rate	3.25%	3.25%

For the valuation, the Projected Unit Credit actuarial cost method was used. Select assumptions are listed in the table below:

**Assumed pre-65 medical trend rates at March 31, 2011**

Health care cost trend rate assumed for next fiscal year	N/A
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	N/A
Fiscal year that the rate reaches the ultimate trend rate	N/A

**Assumed post-65 medical trend rates at March 31, 2011**

Health care cost trend rate assumed for next fiscal year	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%
Fiscal year that the rate reaches the ultimate trend rate	2015

**Assumed prescription drug trend rates at March 31, 2011**

Health care cost trend rate assumed for next fiscal year	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%
Fiscal year that the rate reaches the ultimate trend rate	2015

**Additional Information**

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar
Amortization Period	Single Amortization Period
Amortization Period (in years)	30.00
Amortization Period Status	Open
Method used to determine Actuarial Value of Assets	N/A

**K. Restated Financial Statements:**

The financial statements as of and for the year ended March 31, 2010 were restated to increase construction in progress and accounts payable by \$3,397. Special supplies and expense and accounts payable were increased by \$863. The net effect was to decrease unrestricted net assets by \$863.

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**NOTES TO FINANCIAL STATEMENTS - CONTD.**  
**MARCH 31, 2011**

**K. Restated Financial Statements – contd.:**

Certain fixed asset accounts in the March 31, 2010 financial statements have been reclassified between property held for lease and capital assets. The net effect on total assets and net assets is \$0.

**L. Subsequent Events:**

Subsequent events have been evaluated through June 16, 2011 which is the date the financial statements were available to be issued.

SCHEDULE OF CHANGES IN CAPITAL ASSETS AND PROPERTY HELD FOR LEASES  
AND ACCUMULATED DEPRECIATION  
YEAR ENDED MARCH 31, 2011

	Capital Assets			Accumulated Depreciation			Depreciable Cost	
	Balance 4/1/2010 (As Restated)	Additions	Retirements	Balance 3/31/11	Balance 4/1/2010 (As Restated)	Additions		Retirements
Construction work in progress	\$ 962,290	\$ -	\$ 901,829	\$ 60,461	\$ -	\$ -	\$ -	\$ 60,461
Land and land improvements	5,574,412	949,388	-	6,523,800	2,265,065	281,046	-	2,546,111
Buildings and improvements	8,139,524	-	-	8,139,524	4,255,731	210,191	-	4,465,922
Equipment	1,648,861	-	-	1,648,861	1,402,125	49,039	-	1,451,164
Marina equipment	197,417	-	-	197,417	12,736	15,699	-	28,435
Computer software	22,218	-	-	22,218	22,218	-	-	22,218
Total	<u>\$ 16,544,722</u>	<u>\$ 949,388</u>	<u>\$ 901,829</u>	<u>\$ 16,592,281</u>	<u>\$ 7,957,875</u>	<u>\$ 555,975</u>	<u>\$ -</u>	<u>\$ 8,513,850</u>
								<u>\$ 8,078,431</u>
<b><u>Property Held for Leases:</u></b>								
Land and land improvements	\$ 33,047	\$ 1,916,438	\$ -	\$ 1,949,485	\$ 16,898	\$ 12,268	\$ -	\$ 29,166
Equipment	-	9,790	-	9,790	-	933	-	933
Buildings and improvements	3,925,582	328,991	-	4,254,573	1,434,685	91,101	-	1,525,786
Total	<u>\$ 3,958,629</u>	<u>\$ 2,255,219</u>	<u>\$ -</u>	<u>\$ 6,213,848</u>	<u>\$ 1,451,583</u>	<u>\$ 104,302</u>	<u>\$ -</u>	<u>\$ 1,555,885</u>
								<u>\$ 4,657,963</u>

*Sovie*  
& *Bowie C.P.A., P.C.*  
*Certified Public Accountants*

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**INDEPENDENT AUDITORS' REPORT ON INVESTMENT POLICY**

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Board of Members  
Port of Oswego Authority  
Oswego, New York

We have audited the statement of net assets of the Port of Oswego Authority, a component unit of New York State, as of March 31, 2011 and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated June 16, 2011.

During our examination we conducted an audit of the Authority's investment policies and control procedures as required by the Office of the Comptroller of the State of New York in accordance with generally accepted government auditing standards for financial and compliance audits. Based on our review of the items tested, it is our opinion that the policies and internal control practices established by the Authority are in compliance with various laws, regulations, the Authority's own investment guidelines and the State Comptroller's Investment Guidelines for Public Authorities.

With respect to items not tested, nothing came to our attention that caused us to believe that the Port of Oswego Authority had not complied, in all material respects, with those provisions.

*Sovie & Bowie C.P.A., P.C.*

June 16, 2011

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

Board of Members  
Port of Oswego Authority  
Oswego, New York

We have audited the basic financial statements of Port of Oswego Authority, a component unit of the State of New York, as of and for the year ended March 31, 2011, and have issued our report thereon dated June 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the following paragraph that we consider to be significant deficiencies in internal control over financial reporting. Finding 2011-1 is considered a significant deficiency. A significant deficiency is a deficiency, or 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.

### **Finding 2011 – 1 Preparation of Financial Statements**

In accordance with accounting standard SAS112, should management choose to allow the auditors to prepare the Organization's financial statements, including full footnote disclosure, instead of preparing the statements themselves, this is considered an internal control deficiency. While it is common practice for the auditors to prepare the financial statements for many organizations, the new standard requires us to communicate to those charged with governance this choice to have the auditors prepare the financial statements as a significant deficiency or material weakness. This is to ensure that you understand that the auditors, not management, have prepared the financial statements and allow those charged with governance the ability to determine whether the cost of implementing an appropriate control to prepare the financial statements outweighs the benefit that could be gained. An appropriate control could be hiring additional staff with the knowledge and ability to prepare the financial statements or hiring another accountant to prepare the financial statements before the audit commences.

#### **Management Response**

In accordance with the Statement of Auditing Standards (SAS) No. 112, it is the responsibility of the Port of Oswego Authority to prepare the organization's financial statements. The Port Authority chose to allow the independent auditor to prepare the financial statements for the reporting period, as has been standard practice for previous audits. It is important to note that this practice is not precluded under the new guideline, but rather is now listed as a significant deficiency under the published standards.

The Port of Oswego Authority will be working through a process by which expertise shall be developed within the staff, or a third party will be selected to prepare financial statements in accordance with SAS No. 112.

#### **Compliance and Other Matters**

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

Port of Oswego Authority's response to the finding identified in our audit is described above. We did not audit Port of Oswego Authority's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Port of Oswego Authority, in a separate letter dated June 16, 2011.

This report is intended solely for the information and use of the Board of Members, management, and the State of New York and is not intended to be, and should not be used by anyone other than these specified parties.

*Sovie & Bowie C.P.A., P.C.*

June 16, 2011

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& Bowie C.P.A., P.C.*  
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Board of Members  
Port of Oswego Authority  
Oswego, New York

In planning and performing our audit of the financial statements of Port of Oswego Authority for the year ended March 31, 2011, we considered the Authority's internal control structure to plan our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted a certain matter involving the internal control structure and other operational matters that is presented for your consideration. We previously reported on the Authority's internal control structure in our report dated June 16, 2011. This letter does not affect our report dated June 16, 2011 on the financial statements of the Port of Oswego Authority.

We will review the status of the comment during our next audit engagement. Our comment and recommendation, which has been discussed with appropriate members of management, is intended to improve the internal control structure or result in other operating efficiencies. We will be pleased to discuss the comment in further detail at your convenience, to perform any additional study of this matter, or to assist you in implementing the recommendation. Our comment is summarized as follows:

**Develop an Accounting Procedures Manual**

We recommend that management establish a standard accounting and operating procedures manual outlining policies to be followed. The preparation and maintenance of written standard procedures is very useful to do the following:

- Establish consistent organizational practices.
- Fix accounting and bookkeeping responsibilities.
- Reduce the likelihood of coding errors and assist in the preparation of timely and accurate monthly financial statements.
- Aid in review by management for adherence to Port policies.
- Aid in exchange of management ideas.
- Provide the Port with a source of information that will not be lost if key personnel leave.
- Aid in the training of new employees.

The manual should include, along with a chart of accounts, detailed explanations of account content, appropriate descriptions of all accounting procedures and routines, and definitions of job authority and responsibility.

We recognize the preparation of the manual will be a very time consuming task so that implementation may take several years. However, we believe that action should be taken by the Port to establish priorities and a timetable for the completion of the manual.

We wish to thank the Executive Director and staff for their support and assistance during our audit.

This report is intended solely for the information and use of the Board of Members, management, and others within the Organization.

*Sovie & Bowie C.P.A., P.C.*

June 16, 2011