

Table of Contents

PORT OF OSWEGO AUTHORITY

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)	3
AUDITED FINANCIAL STATEMENTS	8
STATEMENTS OF NET POSITION	8
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION	10
STATEMENTS OF CASH FLOWS	11
NOTES TO FINANCIAL STATEMENTS	12
INDEPENDENT AUDITORS' REPORT ON INVESTMENT POLICY	28
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	29



**BOWERS & COMPANY
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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

**BOARD OF MEMBERS
PORT OF OSWEGO AUTHORITY**

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the **PORT OF OSWEGO AUTHORITY**, component unit of the State of New York, as of and for the years ended March 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Port of Oswego Authority, as of March 31, 2013 and 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion on pages 3-7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2013, on our consideration of the Port of Oswego Authority'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 Port of Oswego Authority's internal control over financial reporting and compliance.

Bowers & Company

Watertown, New York
June 7, 2013

PORT OF OSWEGO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended March 31, 2013

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, 2013. Please read it in conjunction with the Port's basic financial statements, which begin on page 8.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows (on pages 8 through 11) provide information about the activities of the Port and present a longer-term view of the Port's finances.

NET POSITION
MARCH 31, 2013, 2012 AND 2011

	2013	2012	2011
Current Assets and Other Assets	\$ 1,185,345	\$ 967,529	\$ 544,379
Other Asset	0	0	83,707
Other Asset - Property Held for Lease	2,109,032	2,192,433	4,657,963
Capital Assets	<u>7,679,988</u>	<u>7,900,436</u>	<u>8,078,431</u>
Total Assets	<u>\$ 10,974,365</u>	<u>\$ 11,060,398</u>	<u>\$ 13,364,480</u>
Long Term Liabilities	3,974,629	4,077,322	5,815,560
Other Long Term Liabilities	1,131,573	1,104,736	838,177
Current Liabilities	<u>667,021</u>	<u>590,096</u>	<u>708,543</u>
Total Liabilities	<u>\$ 5,773,223</u>	<u>\$ 5,772,154</u>	<u>\$ 7,362,280</u>
Net Position:			
Invested in Capital Assets, Net of Related Debt	5,503,248	5,606,395	6,473,386
Unrestricted	<u>(302,106)</u>	<u>(318,151)</u>	<u>(471,186)</u>
Total Net Position	<u>\$ 5,201,142</u>	<u>\$ 5,288,244</u>	<u>\$ 6,002,200</u>

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended March 31, 2013

The total net position of the Port decreased by 2 percent (\$5,201,142 in 2013 compared to \$5,288,244 in 2012).

The total net position of the Port decreased by 12 percent (\$5,288,244 in 2012 compared to \$6,002,200 in 2011).

CHANGES IN NET POSITION
YEARS ENDED MARCH 31, 2013, 2012 AND 2011

	2013	2012	2011
REVENUES			
Operating Revenue	\$ 3,931,165	\$ 2,663,167	\$ 3,208,413
Nonoperating Revenue	<u>126,199</u>	<u>147,925</u>	<u>459,843</u>
Total Revenue	<u>4,057,364</u>	<u>2,811,092</u>	<u>3,668,256</u>
EXPENSES			
Operating Expenses	3,519,552	2,751,466	2,763,480
Other Operating Expenses - Depreciation	699,994	772,532	660,277
Other Operating Expenses - OPEB Expense	42,977	277,886	264,888
Nonoperating Expenses	<u>19,428</u>	<u>77,595</u>	<u>51,091</u>
Total Expenses	4,281,951	3,879,479	3,739,736
Loss Before Capital Contributions	(224,587)	(1,068,387)	(71,480)
Capital Contributions	137,485	354,431	14,543
Net Position - Beginning of Year	<u>5,288,244</u>	<u>6,002,200</u>	<u>6,059,137</u>
Net Position - End of Year	<u>\$ 5,201,142</u>	<u>\$ 5,288,244</u>	<u>\$ 6,002,200</u>

Total revenue increased by 44 percent (\$4,057,364 in 2013 compared to \$2,811,092 in 2012). Total expenses increased by 10 percent (\$4,281,951 in 2013 compared to \$3,879,479 in 2012).

Total revenue decreased by 23 percent (\$2,811,092 in 2012 compared to \$3,668,256 in 2011). Total expenses increased by 4 percent (\$3,879,479 in 2012 compared to \$3,739,736 in 2011).

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
For the Year Ended March 31, 2013

**CAPITAL ASSETS AND PROPERTY HELD FOR LEASES
NET OF ACCUMULATED DEPRECIATION
MARCH 31, 2013, 2012 AND 2011**

	2013	2012	2011
Capital Assets	\$ 7,679,988	\$ 7,900,436	\$ 8,078,431
Property Held For Leases	<u>2,109,032</u>	<u>2,192,433</u>	<u>4,657,963</u>
Total	<u>\$ 9,789,020</u>	<u>\$ 10,092,869</u>	<u>\$ 12,736,394</u>

At March 31, 2013 total capital assets and property held for leases decreased by 3 percent or \$303,849 decrease from 2012.

At March 31, 2012 total capital assets and property held for leases decreased by 21 percent or \$2,643,525 decrease from 2011.

**LONG-TERM DEBT
MARCH 31, 2013, 2012 AND 2011**

	2013	2012	2011
Notes and Loan Payable	\$ 201,320	\$ 265,284	\$ 2,068,637
New York State Retirement System	70,656	44,253	14,121
Advances Due to State of New York	3,805,926	3,855,926	3,905,926
Capital Lease Obligation	30,895	52,736	73,500
Less Current Portion Due within One Year	<u>(134,168)</u>	<u>(140,877)</u>	<u>(246,624)</u>
Total	<u>\$ 3,974,629</u>	<u>\$ 4,077,322</u>	<u>\$ 5,815,560</u>

At March 31, 2013 total long-term debt decreased by \$102,693 from 2012.

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

PORT OF OSWEGO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended March 31, 2013

MISSION STATEMENT

The mission of the Port of Oswego Authority is to serve as an economic catalyst in the *Central New York Development Council District Region* by providing diversified and efficient transportation services and conducting operations in a manner that promotes regional growth and development while being mindful of our responsibility to serve as a steward of the environment.

Adopted – September 28, 2011

*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*

The Port of Oswego serves as a critical transportation link for more than twenty companies seeking domestic and international shipment of their cargoes. While providing world class cargo handling services, the Port continues to play a vital role in the economic development initiatives of the region. With Key Performance Indicators (KPI) in place to serve as a guiding force, the Port of Oswego experienced a record year, and met or exceeded all indicators from the previous year. Under the direction of Chairman Terrence Hammill and the entire Board of Directors, the Port set a standard that will serve to guide the future success of the Port Authority.

Just two years after breaking the \$3 million mark in revenues, the Port surpassed the \$4 million mark for FY 2012-2013. All business sectors of the agency saw significant growth, with new customers on the commercial shipping side and enhanced services associated with the marina fueling the way.

Salt shipments returned to the Port after a one year absence due to a weather shutdown in Ontario. Salt, combined with strong agriculture shipments from Perdue Agribusiness and potash from Crop Production Services, allowed the Port to see an increase in the bulk sector. Aluminum shipments via marine transport mode more than doubled, to go along with strong inbound movements from both road and rail. The Port of Oswego boasts one of the most impressive rosters of companies utilizing facilities which include: Novelis, Marubeni, Albecour, Glencore, Rio Tinto, Goldman Sachs, Standard Chartered Bank, Deutsche Bank and Trafigura AG. Aluminum not only moves through the Port for local distribution, but road and rail shipments have products moving to Ohio, Pennsylvania, Virginia, Indiana, Tennessee and Kentucky.

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

For the Year Ended March 31, 2013

The marina witnessed a rebound from the previous fiscal year by posting a 28% increase in revenues due to a strong fuel operation and transient business. In addition, the Board of Directors approved the acquisition of Towboat US franchise and towing vessel, which continues the Board's efforts to provide the highest level of services to the recreational and commercial boating network. The Port also signed an agreement with National Fueling, allowing the marina's fueling operation to serve as the exclusive provider of marine grade fuel for the Palmer-Johnson mega yachts that pass by Oswego prior to traversing the St. Lawrence Seaway for worldwide destinations.

With the increase in operational activities, the Board of Directors continues to invest in facilities and equipment to meet the needs of a growing customer base. The Board approved a lease for a five acre parcel of property which previously served as a Price Chopper Supermarket. With the execution of a purchase and sale agreement, the Board has taken steps to purchase the property, which includes a 42,000 square foot building that will be utilized to expand boat storage operations.

Design and permitting continues for the East Terminal Connector Project, which should be under construction in late 2013. Once complete, the project will allow for movement of cargo from the East Terminal to a 12 acre parcel owned by the Port Authority, thus enhancing the amount of outside storage space and enabling access to the site via dedicated roadway, instead of by passage over residential streets.

The Port of Oswego will continue to serve as a multimodal operation, assisting companies in meeting their logistics solutions. With a dedicated staff and an unsurpassed longshoremen crew, the Port stands poised to provide the highest level of customer service and continue as a member of the economic development continuum for Oswego County and Central New York

AUDITED FINANCIAL STATEMENTS

STATEMENTS OF NET POSITION

March 31, 2013 and 2012

ASSETS

	2013	2012
CURRENT ASSETS		
Cash	\$ 206,292	\$ 519,545
Certificates of Deposit	164,697	163,702
Certificates of Deposit - Reserved for Marina Improvements	15,270	15,236
Accounts Receivable	653,003	98,817
Grants Receivable	97,202	139,788
Prepaid Expenses	48,881	30,441
Total Current Assets	<u>1,185,345</u>	<u>967,529</u>
CAPITAL ASSETS - Net of Accumulated Depreciation		
Construction Work in Progress	202,251	280,732
Land and Land Improvements	3,674,931	3,681,152
Buildings and Improvements	3,353,958	3,487,145
Equipment and Software	448,848	451,407
Total Capital Assets - Net of Accumulated Depreciation	<u>7,679,988</u>	<u>7,900,436</u>
OTHER ASSETS		
Property Held for Leases - Net of Accumulated Depreciation	<u>2,109,032</u>	<u>2,192,433</u>
Total Other Assets	<u>2,109,032</u>	<u>2,192,433</u>
TOTAL ASSETS	<u>\$ 10,974,365</u>	<u>\$ 11,060,398</u>

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

LIABILITIES AND NET POSITION

	2013	2012
CURRENT LIABILITIES		
Accounts Payable	\$ 226,285	\$ 158,586
Accrued Payroll and Related Charges	78,366	37,000
Retainage Payable	12,043	25,502
Accrued Vacation Compensation	17,703	16,102
Line of Credit	148,894	154,187
Deferred Revenue	49,562	57,842
Current Portion of Long-Term Debt	134,168	140,877
Total Current Liabilities	<u>667,021</u>	<u>590,096</u>
LONG-TERM LIABILITIES		
Long-Term Debt		
New York State Retirement System	70,656	44,253
Mortgage Payable	0	11,997
Note Payable	201,320	253,287
Capital Lease Obligation	30,895	52,736
Due State of New York	3,805,926	3,855,926
	<u>4,108,797</u>	<u>4,218,199</u>
Less: Current Portion	<u>(134,168)</u>	<u>(140,877)</u>
Total Long-Term Debt	<u>3,974,629</u>	<u>4,077,322</u>
Other Long-Term Liability:		
Postemployment Healthcare (OPEB) Liability	<u>1,131,573</u>	<u>1,104,736</u>
Total Long-Term Liabilities	<u>5,106,202</u>	<u>5,182,058</u>
Total Liabilities	<u>5,773,223</u>	<u>5,772,154</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	5,503,248	5,606,395
Unrestricted	<u>(302,106)</u>	<u>(318,151)</u>
Total Net Position	<u>5,201,142</u>	<u>5,288,244</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 10,974,365</u>	<u>\$ 11,060,398</u>

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Years Ended March 31, 2013 and 2012

	2013	2012
OPERATING REVENUES		
Rentals	\$ 599,677	\$ 653,284
Marina Operating Revenue	691,661	538,675
Port Operating Fees	<u>2,639,827</u>	<u>1,471,208</u>
Total Operating Revenue	<u>3,931,165</u>	<u>2,663,167</u>
OPERATING EXPENSES		
Salaries and Wages	1,305,515	1,028,872
Payroll Taxes and Fringe Benefits	241,551	252,539
Annual OPEB Expense	42,977	277,886
Employee Retirement and Pension Expense	524,272	409,239
Travel	33,570	21,913
Automotive	72,386	43,035
Office Supplies and Expense	17,456	14,279
Insurance	181,517	185,434
Advertising and Printing	4,589	3,602
Telephone and Postage	16,566	15,351
Utilities	69,236	52,618
Household Supplies	11,595	12,169
Special Supplies and Expense	52,977	36,769
Community Support	21,500	14,000
Metered Water	39,051	35,701
Professional Fees	52,532	22,574
Repairs and Maintenance	64,016	47,292
Rentals	255,416	160,109
Contract Trucking	79,946	69,431
Marina Supplies and Expense	470,879	326,076
Bad Debt Expense	4,982	463
Depreciation	<u>699,994</u>	<u>772,532</u>
Total Operating Expenses	<u>4,262,523</u>	<u>3,801,884</u>
TOTAL OPERATING LOSS	(331,358)	(1,138,717)
NON OPERATING REVENUE (EXPENSE)		
Auction Sale of Capital Assets	511	141,239
Insurance Claim Revenue	124,173	4,890
Interest Expense	(19,428)	(77,595)
Interest Income	<u>1,515</u>	<u>1,796</u>
Total Nonoperating Revenue	<u>106,771</u>	<u>70,330</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(224,587)	(1,068,387)
Capital Contributions	137,485	354,431
Net Position, Beginning of Year	<u>5,288,244</u>	<u>6,002,200</u>
NET POSITION, END OF YEAR	<u>\$ 5,201,142</u>	<u>\$ 5,288,244</u>

See notes to financial statements.

PORT OF OSWEGO AUTHORITY

STATEMENTS OF CASH FLOWS
Years Ended March 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Customers	\$ 3,368,699	\$ 2,628,289
Payments to Suppliers	(1,393,972)	(1,078,751)
Payments to Employees	(2,028,371)	(1,707,956)
Net Cash Used In Operating Activities	<u>(53,644)</u>	<u>(158,418)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Insurance Claim Revenue	124,173	78,988
Net Cash Provided By Non-Capital Financing Activities	<u>124,173</u>	<u>78,988</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Contributions	137,485	354,431
Purchases of Capital Assets / Construction in Progress	(383,192)	(418,257)
Proceeds from Sale of Capital Assets	511	889,908
Proceeds from Capital Debt and Line of Credit	31,338	204,268
Principal Paid on Capital Debt and Line of Credit	(152,011)	(429,727)
Interest Paid on Capital Debt and Line of Credit	(19,428)	(77,595)
Net Cash (Used In) Provided By Capital and Related Financing Activities	<u>(385,297)</u>	<u>523,028</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Earned	1,515	1,796
Net Cash Provided by Investing Activities	<u>1,515</u>	<u>1,796</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(313,253)	445,394
Cash, Beginning of Year	519,545	74,151
Cash, End of Year	<u>\$ 206,292</u>	<u>\$ 519,545</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Loss	\$ (331,358)	\$ (1,138,717)
Depreciation	699,994	772,532
Bad Debt Expense	4,982	463
Annual OPEB Expense	42,977	277,886
(Increase) Decrease in Assets:		
Accounts Receivable	(554,186)	(32,278)
Prepaid Expenses	(18,440)	(11,949)
Increase (Decrease) in Liabilities:		
Accounts Payable	67,700	(6,449)
Accrued Payroll and related charges	41,366	(15,141)
Accrued Vacation Compensation	1,601	(2,165)
Deferred Revenue	(8,280)	(2,600)
Net Cash Used In Operating Activities	<u>\$ (53,644)</u>	<u>\$ (158,418)</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 1 – ORGANIZATION

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 (the "Port") are exempt from taxation.

The Port 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Port 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 position. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total position.

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.

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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 to 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.

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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

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 did not directly incur any cost in connection with this project. The title and responsibility for the maintenance of the water line rests with the Port. All other facilities are stated at cost. The Port 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 position 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 as of March 31:

	2013	2012
Land Improvements	\$ 3,152,473	\$ 2,842,648
Buildings and Improvements	4,875,577	4,665,577
Equipment	1,627,830	1,543,035
Computer Software	22,283	22,218
Total	\$ 9,678,163	\$ 9,073,478

Retirement Benefit Plans

Substantially all full-time employees of the Port 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 7 for additional information.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES - Continued

Retirement Benefit Plans - Continued

The Port 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.

Compensated Absences

The Port 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, 2013 and 2012, the liability for accrued vacation leave was \$17,703 and \$16,102 respectively.

Cash

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

The Port's investment policies are governed by state statutes. The Port'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

March 31, 2013 and 2012

NOTE 3 – DEPOSITS

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, 2013 per the banks were \$507,920. These deposits are categorized as follows:

	(1)	(2)	(3)
\$	449,387	\$ 58,533	\$ 0

The Port 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, 2013 and 2012 is \$15,270 and \$15,236 respectively.

PORT OF OSWEGO AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 4 – NOTES PAYABLE

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, 2013 is 5%.

	Balance at 3/31/12		Additions		Payments		Balance at 3/31/13
Line of Credit	\$ 154,188	\$	0	\$	5,294	\$	148,894

NOTE 5 – LONG-TERM DEBT

Long-term debt activity for the year ended March 31, 2013 was as follows:

	Balance at 3/31/12		Additions		Payments		Balance at 3/31/13
Due State of New York	\$ 3,855,926	\$	0	\$	50,000	\$	3,805,926
Note Payable	253,287		0		51,967		201,320
Mortgage Payable	11,997		0		11,997		0
NYS Retirement System	44,253		31,338		4,935		70,656
Capital Lease Obligation	52,736		0		21,841		30,895
Total Long-Term Debt	4,218,199	\$	31,338	\$	140,740		4,108,797
Less Amount Due Within One Year	(140,877)						(134,168)
	<u>\$ 4,077,322</u>						<u>\$ 3,974,629</u>

PORT OF OSWEGO AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 5 – LONG-TERM DEBT - Continued

	2013	2012
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	\$ 3,304,274	3,354,274
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>
	3,805,926	3,855,926
Less - Current Portion	<u>(50,000)</u>	<u>(50,000)</u>
	<u>\$ 3,755,926</u>	<u>\$ 3,805,926</u>

Due State of New York for First Instance Advances

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 Port 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 Port 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. Annual principal payments of \$50,000 were made during the years ended March 31, 2013 and 2012.

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 including principal and interest. Interest is calculated at 70.5% of the prime rate. The interest rate at March 31, 2013 is 2.29%. 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, 2013. The outstanding balance at March 31, 2013 and 2012 is \$201,320 and \$253,287, respectively.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 5 – LONG-TERM DEBT - Continued

Mortgage Payable - Fish and Wildlife Building

The Port 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, 2013 is 2.29%. The current monthly payment is \$2,989. The note matured on July 31, 2012. The collateral for the loan is the assignment of a lease between the Port and General Service Administration. The outstanding balance at March 31, 2013 and 2012 is \$0 and \$11,997, respectively.

New York State Retirement System

The Port elected to amortize an 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, 2013 and 2012 is \$1,714 and \$3,182, 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 with an interest rate of 5%. The amount is due to mature on February 1, 2021. The outstanding balance at March 31, 2013 and 2012 is \$7,364 and \$8,092, respectively.

The Port elected to amortize an amount due of \$32,979 to the New York State Retirement System for the fiscal year ending March 31, 2012. The amortized amount will be repaid in equal annual installments over a ten-year period. The interest rate is 7.5%. The amount is due to mature on February 1, 2022. The outstanding balance at March 31, 2013 and 2012 is \$30,240 and \$32,979, respectively.

The Port elected to amortize an amount due of \$31,338 to the New York State Retirement System for the fiscal year ending March 31, 2013. The amortized amount will be repaid in equal annual installments over a ten-year period. The interest rate is 3%. The amount is due to mature on February 1, 2022. The outstanding balance at March 31, 2013 and 2012 is \$31,338 and \$0, respectively.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 5 – LONG-TERM DEBT - Continued

Capital Lease Obligations

The Port and Toyota Financial Services entered into a lease agreement dated July 7, 2009 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, 2013 and March 31, 2012 is \$30,895 and \$52,736, respectively.

The future minimum lease payments under the above capital lease and the net present value of future minimum lease payments at March 31, 2013 are as follows:

Total Minimum Lease Payments	\$	32,016
Amount Representing Interest		<u>(1,121)</u>
Present Value of Net Minimum Lease Payments	\$	<u>30,895</u>

Future Maturities

Annual principal future maturities of long-term debt are as follows:

2014	\$	134,168
2015		119,213
2016		112,618
2017		94,868
2018		57,354
Thereafter		<u>3,590,576</u>
Total	\$	<u>4,108,797</u>

NOTE 6 – CONTINGENT LIABILITIES

The Port is a defendant in a lawsuit. The outcome of this lawsuit was recently settled and the Port's attorney is awaiting the signed release from the plaintiff and the formal dismissal of the litigation in June 2013. In the opinion of the Port's attorney, the resolution will not have a material adverse effect on the financial condition of the Port.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 7 – 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 ERS 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 ERS.

The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the ERS and for the custody and control of its funds. The ERS 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 ERS is noncontributory except for employees who joined the ERS after July 27, 1976 who contribute 3% of their salary. Employees in the ERS 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 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,	
2013	\$ 93,720
2012	95,297
2011	61,960

PORT OF OSWEGO AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

**NOTE 8 – NEW YORK STATE DEPARTMENT OF
TRANSPORTATION GRANT**

The Port 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, 2013 and 2012 the Port has recognized and received \$97,202 and \$186,137 of grant revenue for various projects.

NOTE 9 – OPERATING LEASE - LESSOR

The Port 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:

	2013	2012
Land and Land Improvements	\$ 24,311	\$ 24,311
Buildings and Improvements	3,538,770	3,538,770
Accumulated Depreciation	<u>(1,454,049)</u>	<u>(1,370,648)</u>
Total	<u>\$ 2,109,032</u>	<u>\$ 2,192,433</u>

Minimum future rentals on non-cancelable leases are as follows:

Year Ending March 31,	
2014	\$ 556,145
2015	568,832
2016	446,880
2017	257,908
2018	187,435
Thereafter	<u>1,802,768</u>
Total	<u>\$ 3,819,968</u>

PORT OF OSWEGO AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 10 – OPERATING LEASES – LESSEE

The Port 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 \$4,612. Rental expense for the above lease was \$55,342 for the years ended March 31, 2013 and 2012, respectively.

The Port leases a Trackmobile Viking Railcar Mover from DeLage Landon Financial Services, Inc. for an eighty-four month term that expires on April 15, 2016. The monthly rental payment is \$3,399. Rental expense for the years ended March 31, 2013 and 2012 was \$36,444 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, 2013 and 2012 was \$56,880, respectively.

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

2014	\$ 132,294
2015	95,400
2016	<u>57,480</u>
Total	<u>\$ 285,174</u>

NOTE 11 – SUBSEQUENT EVENTS

The Port has evaluated events and transactions that occurred between March 31, 2013 and June 7, 2013, which is the date the financial statements were available to be issued, for possible disclosure and recognition in the financial statements.

On May 31, 2013, the Port purchased a 42,000 square foot building on a five acre parcel of property in Oswego, New York for \$300,000. The property will be utilized to expand the Port's storage operations. The Port anticipates issuing \$300,000 in general obligation bonds to mature in twenty years.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 12 – POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description – The Port contributes to the Excellus Blue Cross Blue Shield Plan. The health insurance plan is open to active and retired employees or their spouses. The Board Members of the Port 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 are not required to make contributions. Spouses of retired directors are also not required to make contributions.

The Port implemented GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, prospectively for the year ended March 31, 2008. 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.

PORT OF OSWEGO AUTHORITY

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 12 – POSTEMPLOYMENT HEALTHCARE BENEFITS -
Continued

Annual OPEB Cost and Net OPEB Obligation	3/31/13	3/31/12
Annual Required Contribution	\$ 62,675	\$ 292,191
Interest on Net OPEB Obligation	44,189	32,094
Adjustment to Annual Required Contribution	<u>(63,887)</u>	<u>(46,399)</u>
Annual OPEB Cost	42,977	277,886
Contributions Made	<u>(16,140)</u>	<u>(11,327)</u>
Increase in Net OPEB Obligation	26,837	266,559
Net OPEB Obligation – Beginning of Year	<u>1,104,736</u>	<u>838,177</u>
Net OPEB Obligation – End of Year	<u>\$ 1,131,573</u>	<u>\$ 1,104,736</u>
Annual OPEB Cost	\$ 42,977	\$ 277,886
Percentage of Annual OPEB Cost Contributed	37.56%	4.08%
Net OPEB Obligation - End of Year	1,131,573	1,104,736
Funded Status	3/31/13	3/31/12
Actuarial Accrued Liability (AAL)	571,039	\$534,355
Actuarial Value of Assets	---	---
Unfunded Actuarial Accrued Liability (UAAL)	571,039	534,355
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
Actuarial Methods and Assumptions	3/31/13	3/31/12
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	3.00%	3.25%

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

**NOTE 12 – POSTEMPLOYMENT HEALTHCARE BENEFITS -
Continued**

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, 2013

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, 2013

Health care cost trend rate assumed for next fiscal year	6.75%
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	2021

Assumed prescription drug trend rates at March 31, 2013

Health care cost trend rate assumed for next fiscal year	6.25%
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	2021

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

NOTES TO FINANCIAL STATEMENTS

March 31, 2013 and 2012

NOTE 13 – SCHEDULE OF CHANGES IN CAPITAL ASSETS AND PROPERTY HELD FOR LEASES AND ACCUMULATED DEPRECIATION - YEAR ENDED MARCH 31, 2013

	Capital Assets				Accumulated Depreciation				Depreciable Cost
	Balance 4/1/2012	Additions	Retirements	Balance 3/31/13	Balance 4/1/2012	Additions	Retirements	Balance 3/31/13	
Capital Assets:									
Construction Work in Progress	\$ 280,732	\$ 302,422	\$ 380,903	\$ 202,251	\$ 0	\$ 0	\$ 0	\$ 0	\$ 202,251
Land and Land Improvements	6,523,800	306,231	2,627	6,827,404	2,842,648	312,452	2,627	3,152,473	3,674,931
Buildings and Improvements	8,152,722	76,813	0	8,229,535	4,665,577	210,000	0	4,875,577	3,353,958
Equipment	1,792,225	49,334	6,494	1,835,065	1,498,903	71,335	6,494	1,563,744	271,321
Marina Equipment	202,217	40,299	2,788	239,728	44,132	22,742	2,788	64,086	175,642
Computer Software	22,218	1,950	0	24,168	22,218	65	0	22,283	1,885
Total	\$ 16,973,914	\$ 777,049	\$ 392,812	\$ 17,358,151	\$ 9,073,478	\$ 616,594	\$ 11,909	\$ 9,678,163	\$ 7,679,988
Property Held for Leases:									
Land and Land Improvements	\$ 24,311	\$ 0	\$ 0	\$ 24,311	\$ 11,404	\$ 1,621	\$ 0	\$ 13,025	\$ 11,286
Buildings and Improvements	3,538,770	0	0	3,538,770	1,359,244	81,780	0	1,441,024	2,097,746
Total	\$ 3,563,081	\$ 0	\$ 0	\$ 3,563,081	\$ 1,370,648	\$ 83,401	\$ 0	\$ 1,454,049	\$ 2,109,032



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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT ON INVESTMENT POLICY

BOARD OF MEMBERS
PORT OF OSWEGO AUTHORITY
OSWEGO, NEW YORK

We have audited the statement of net position of the Port of Oswego Authority, a component unit of New York State, as of March 31, 2013 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and have issued our report thereon dated June 7, 2013.

We conducted our audit of the Port of Oswego Authority's investment policies, as required by the Office of the Comptroller of the State of New York, 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.

The results of our tests indicate that, with respect to the items tested, the Port of Oswego Authority complied in all material respects with the Port's own investment policies as well as the applicable New York State investment guidelines for public authorities.

Bowers & Company

Watertown, New York
June 7, 2013

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CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' 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**

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, the financial statements of the business-type activities of the Port of Oswego Authority, as of and for the year ended March 31, 2013, and the related notes to the financial statements, which collectively comprise the Port of Oswego Authority's basic financial statements and have issued our report thereon dated June 7, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port of Oswego Authority'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 Port of Oswego Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port of Oswego Authority'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.

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Our consideration of internal control 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the following paragraph that we consider to be a significant deficiency.

Finding 2013 – 1 Preparation of Financial Statements

In accordance with accounting standard SAS115, should management choose to allow the auditors to prepare the entity'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 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. 115, it is the responsibility of the Port of Oswego Authority to prepare the Authority's financial statements. The 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 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. 115.

Compliance and Other Matters

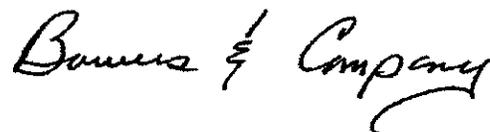
As part of obtaining reasonable assurance about whether the Port of Oswego Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Port of Oswego Authority's Response to Findings

The Port of Oswego Authority's response to the finding identified in our audit is described above. The Port of Oswego Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.



Watertown, New York
June 7, 2013