



**LORAIN PORT AUTHORITY
LORAIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|--|-------------|
| Independent Accountants' Report..... | 1 |
| Combined Statement of Cash Receipts, Cash Disbursements, and Changes in Fund Cash Balances – All Governmental Funds – For the Year Ended December 31, 2003 | 3 |
| Notes to the Financial Statements | 5 |
| Schedule of Federal Awards Expenditures..... | 11 |
| Notes to the Schedule of Federal Awards Expenditures | 12 |
| Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i> | 13 |
| Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 15 |
| Schedule of Findings | 17 |

This page intentionally left blank.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Board of Directors
Lorain Port Authority
Lorain County
611 Broadway Avenue
Lorain, Ohio 44052

We have audited the accompanying financial statements of Lorain Port Authority, Lorain County, Ohio, (the Port Authority) as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion 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 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.

As described Note 1, the Port Authority prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of Lorain Port Authority, Lorain County, Ohio as of December 31, 2003, and its combined cash receipts and disbursements for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2004 on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of federal awards expenditures is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, this information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Lorain Port Authority
Lorain County
Independent Accountants' Report

This report is intended solely for the information and use of the audit/finance committee, management, the Board of Directors, and other officials authorized to receive this report under Section 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 10, 2004

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN FUND
CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | Governmental Fund Types | | | Total (Memorandum Only) |
|--|-------------------------|--------------------|---------------------|-------------------------------|
| | General | Special Revenue | Capital Projects | |
| Receipts: | | | | |
| Local Taxes | \$577,443 | 0 | \$0 | \$577,443 |
| Intergovernmental | 82,282 | 24,555 | 350,556 | 457,393 |
| Leases and Rentals | 123,514 | 0 | 330,188 | 453,702 |
| Interest | 5,392 | 0 | 1,332 | 6,724 |
| All Other Income | 100,334 | 0 | 1,330 | 101,664 |
| Total Receipts | 888,965 | 24,555 | 683,406 | 1,596,926 |
| Disbursements: | | | | |
| Current: | | | | |
| Salaries and Benefits | 247,149 | 19,406 | 0 | 266,555 |
| Supplies | 6,448 | 0 | 0 | 6,448 |
| Travel, Education, Dues, and Publications | 2,828 | 0 | 0 | 2,828 |
| Promotion and Development | 73,575 | 0 | 0 | 73,575 |
| Rent and Utilities | 46,823 | 0 | 0 | 46,823 |
| Repairs and Maintenance | 14,715 | 0 | 0 | 14,715 |
| Insurance | 76,416 | 0 | 0 | 76,416 |
| Professional Services | 55,680 | 0 | 0 | 55,680 |
| Property Management | 61,200 | 0 | 0 | 61,200 |
| ODNR Lease | 14,657 | 0 | 0 | 14,657 |
| Loan Repayments, City and State | 10,618 | 0 | 255,268 | 265,886 |
| Miscellaneous | 101,530 | 12,941 | 0 | 114,471 |
| Debt Service: | | | | |
| Redemption of Principal | 130,000 | 0 | 0 | 130,000 |
| Interest | 13,181 | 0 | 0 | 13,181 |
| Capital Outlay | 237,308 | 2,562 | 1,192,397 | 1,432,267 |
| Capital Improvements | 46,018 | 0 | 75,209 | 121,227 |
| Total Disbursements | 1,138,146 | 34,909 | 1,522,874 | 2,695,929 |
| Total receipts over/(under) disbursements | (249,181) | (10,354) | (839,468) | (1,099,003) |
| Other financing receipts/(disbursements): | | | | |
| Sale of Fixed Assets | 112,858 | 0 | 0 | 112,858 |
| Transfers-In | 0 | 8,380 | 0 | 8,380 |
| Transfers-Out | (8,380) | 0 | 0 | (8,380) |
| Total other financing receipts/(disbursements) | 104,478 | 8,380 | 0 | 112,858 |
| Excess of receipts and other financing receipts over/ (under) disbursements and other financing disbursements | (144,703) | (1,974) | (839,468) | (986,145) |
| Fund Cash Balances, January 1, 2003 | 442,338 | 2,335 | 758,216 | 1,202,889 |
| Fund Cash Balances, December 31, 2003 | \$297,635 | \$361 | (\$81,252) | \$216,744 |
| Reserve for Encumbrances | \$9,441 | \$0 | \$0 | \$9,441 |

The notes to the financial statements are an integral part of this statement.

This page intentionally left blank.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Lorain Port Authority, Lorain County (the Port Authority) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority is directed by a nine-member Board, appointed for staggered terms by the Mayor of the City of Lorain. The Port Authority provides water safety and recreational programs, promotes economic development and sound waterfront management.

The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable.

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposit are valued at cost. Investments are included in fund cash balances. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of the sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Port Authority uses fund accounting to segregate cash and investments that are restricted as to use. The Port Authority classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Fund

This fund is used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Port Authority had the following significant Special Revenue Fund:

Marine Patrol Fund – This fund is used to account for the activity related to the Port Authority's marine patrol program.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
CONTINUED**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects. The Port Authority had the following significant Capital Project Funds:

Colorado Avenue Industrial Park Fund – This fund is used to account for the activity related to the various construction activities within the Colorado Avenue Industrial Park.

Black River Intermodal Fund – This fund is used to account for the activity related to the various construction activities within the Black River Intermodal project.

Advanced Automotive Systems Fund - This fund is used to account for the activity related to the various construction activities for Advanced Automotive Systems facilities.

E. Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control, and appropriations may not exceed estimated resources. The Port Authority Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

3. Encumbrances

The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated

A summary of 2003 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as capital outlay disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
CONTINUED**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Unpaid Vacation and Compensatory Time

Employees are entitled to cash payments for unused vacation and compensatory time (hourly employees only) upon leaving employment. Unpaid vacation and compensatory time are not reflected as liabilities under the cash basis of accounting used by the Port Authority.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Port Authority maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

| | 2003 |
|--------------------------------|-----------|
| Demand deposits | \$59,320 |
| Certificates of deposit | 105,686 |
| Total deposits | 165,006 |
| Repurchase Agreements | 51,738 |
| Total deposits and investments | \$216,744 |

Deposits: Deposits are either insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

3. BUDGETARY ACTIVITY

Budgetary activity for the year ending December 31, 2003 was as follows:

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|---------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,240,692 | \$1,001,823 | (\$238,869) |
| Special Revenue | 35,747 | 32,935 | (2,812) |
| Capital Projects | 2,374,045 | 683,406 | (1,690,639) |
| Total | \$3,650,484 | \$1,718,164 | (\$1,932,320) |

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-----------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,163,317 | \$1,155,967 | \$7,350 |
| Special Revenue | 35,778 | 34,909 | 869 |
| Capital Projects | 2,467,650 | 1,522,874 | 944,776 |
| Total | \$3,666,745 | \$2,713,750 | \$952,995 |

Section 5705.41 (B) and (D) of the Ohio Revised Code prohibits budgetary expenditures from exceeding appropriation authority. Section 5705.10 prohibits the three deficit fund balances the Capital Project Funds had at December 31, 2003.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
CONTINUED**

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Port Authority Board. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payment, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the Port Authority's jurisdiction.

Tangible personal property tax is assessed to the property owners, who must file a list of such property with the County by each April 30.

Lorain County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Port Authority.

5. DEBT

The Port Authority has issued two series of Port Development Refunding Revenue Bonds and two series of Industrial Development Revenue Bonds in the aggregate outstanding principal amount of \$14,710,000 at December 31, 2003 for facilities used by private corporations. The Port Authority is not obligated in any way to pay debt related charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the Port Authority's debt presentation. There has not been and there is not currently any condition of default under the bonds of the related financing documents.

6. LOANS

Loans outstanding at December 31, 2003 were as follows:

| | <u>Principal</u> | <u>Interest Rates</u> |
|--------------------------------------|--------------------|-----------------------|
| EDA Title IX Loans | \$ 880,747 | 3.0 to 5.75% |
| Business Development Revolving Loans | 696,167 | 3.0 to 3.25% |
| CDBG Section 108 Loans | <u>1,502,736</u> | 4.25 to 8.5% |
| Total | <u>\$3,079,650</u> | |

The above loans relate to the Advanced Automotive Systems (AAS) project. The terms of the agreement with AAS requires rental payments equal to the principal and interest due on the loans. The loans will be repaid in monthly installments, including interest, over a period up to 20 years.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
CONTINUED**

6. LOANS (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

| <u>Year ending December 31:</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-------------------------------------|--------------------|--------------------|--------------------|
| 2004 | \$ 162,930 | \$ 168,568 | \$ 331,498 |
| 2005 | 170,232 | 161,267 | 331,499 |
| 2006 | 177,916 | 153,574 | 331,490 |
| 2007 | 186,019 | 145,478 | 331,497 |
| 2008 | 194,554 | 136,944 | 331,498 |
| 2009-2013 | 1,597,124 | 530,836 | 2,127,960 |
| 2014-2018 | 425,858 | 250,026 | 675,884 |
| 2019-2022 | <u>165,017</u> | <u>124,864</u> | <u>289,881</u> |
| Total | <u>\$3,079,650</u> | <u>\$1,671,557</u> | <u>\$4,751,207</u> |

7. RETIREMENT SYSTEM

The Port Authority's full-time employees belong to the Public Employees Retirement System of Ohio (OPERS) of Ohio. OPERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2003, members of OPERS contributed 8.5% of their gross salaries. The Port Authority contributed an amount equal to 13.55% of participants' gross salaries. The Port Authority has paid all contributions required through December 31, 2003.

8. TAX ANTICIPATION NOTES

On February 27, 2001, the Port Authority issued tax anticipation notes in the aggregate of \$500,000 at 4.625% interest. At December 31, 2003 the Port Authority had \$155,000 in outstanding notes. Debt service to maturity is as follows:

| <u>Fiscal year ending December 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------------|------------------|-----------------|------------------|
| 2004 | <u>\$155,000</u> | <u>\$7,169</u> | <u>\$162,169</u> |

9. RISK MANAGEMENT

The Port Authority has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles;
- Public officials and employees liability; and
- Faithful performance bonds.

The Port Authority provides health insurance to full-time employees through a private carrier.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
CONTINUED**

10. CONTINGENT LIABILITIES

The Port Authority received financial assistance from federal, state, and local agencies in the form of grants and loans. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant or loan agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Port Authority at year end.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| Federal Grantor Pass Through Grantor Program Title | Pass through Entity <u>Number</u> | Federal CFDA <u>Number</u> | <u>Disbursements</u> |
|--|---|----------------------------------|----------------------|
| U.S. DEPARTMENT OF TRANSPORTATION | | | |
| Pass through Ohio Department of Transportation | | | |
| Highway Planning and Construction Cluster: | | | |
| Highway Planning and Construction Grant | PID No. 20339 | 20.205 | <u>\$817,794</u> |
| Total U.S. Department of Transportation | | | <u>817,794</u> |
| Total Federal Awards Expenditures | | | <u>\$817,794</u> |

The accompanying notes are an integral part of this schedule.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (Schedule) includes the federal grant activity of the Port Authority and is presented on the basis of cash receipts and disbursements. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Lorain Port Authority
Lorain County
611 Broadway Avenue
Lorain, Ohio 44052

We have audited the financial statements of the Lorain Port Authority, Lorain County, Ohio, (the Port Authority) as of and for the year ended December 31, 2003, and have issued our report thereon dated September 10, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could directly and materially affect 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 instances of noncompliance that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 through 2003-004. We also noted certain immaterial instances of noncompliance that we have reported to the Port Authority's management in a separate letter dated September 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to the Port Authority's management in a separate letter dated September 10, 2004.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Lorain Port Authority
Lorain County
Independent Accountants' Report on Compliance and
on Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of the audit/finance committee, management, the Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

September 10, 2004



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Lorain Port Authority
Lorain County
611 Broadway Avenue
Lorain, Ohio 44052

Compliance

We have audited the compliance of the Lorain Port Authority, Lorain County, Ohio, (the Port Authority) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The Port Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Port Authority's management. Our responsibility is to express an opinion on the Port Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Port Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Port Authority's compliance with those requirements.

In our opinion, the Lorain Port Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the Port Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Port Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. We noted other matters involving the internal control over federal compliance that do not require inclusion in this report, that we have reported to management of the Port Authority in a separate letter dated September 10, 2004.

This report is intended for the information and use of the audit/finance committee, management, Board of Directors, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

September 10, 2004

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003**

| 1. SUMMARY OF AUDITOR'S RESULTS | | |
|--|---|---|
| <i>(d)(1)(i)</i> | Type of Financial Statement Opinion | Unqualified |
| <i>(d)(1)(ii)</i> | Were there any material control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(ii)</i> | Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)? | No |
| <i>(d)(1)(iii)</i> | Was there any reported material noncompliance at the financial statement level (GAGAS)? | Yes |
| <i>(d)(1)(iv)</i> | Were there any material internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(iv)</i> | Were there any other reportable internal control weakness conditions reported for major federal programs? | No |
| <i>(d)(1)(v)</i> | Type of Major Programs' Compliance Opinion | Unqualified |
| <i>(d)(1)(vi)</i> | Are there any reportable findings under § .510? | No |
| <i>(d)(1)(vii)</i> | Major Programs (list): | Highway Planning and Construction Cluster: Highway Planning and Construction Program-CFDA 20.205 |
| <i>(d)(1)(viii)</i> | Dollar Threshold: Type A\B Programs | Type A: > \$ 300,000 Type B: all others |
| <i>(d)(1)(ix)</i> | Low Risk Auditee? | Yes |

| |
|---|
| 2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS |
|---|

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-001 |
|-----------------------|-----------------|

Finding For Recovery

On an employees' anniversary date, the Lorain Port Authority advances 72 hours of sick leave to be earned at the rate of ¾ day for each month of full-time employment. On June 26, 2003, Christine M. Partridge, Administrative Assistant, was credited with 72 hours of sick leave. From June 26, 2003 through September 5, 2003, Ms. Partridge used the 72 sick hours advanced to her. On September 5, 2003, Ms. Partridge resigned from the Port Authority. During the fiscal year 2003 Christine M. Partridge was overpaid \$861.12 by the Lorain Port Authority. This amount consists of \$748.80 (60 hours @ \$12.48 per hour) in advanced but unearned sick leave, \$10.86 for the employer share of Medicare at 1.45%, and \$101.46 for the employer contribution of Ohio Public Employees Retirement System at 13.55%.

In accordance with the forgoing facts, and pursuant to the Ohio Revised Code Section 117.28, a Finding for Recovery for public monies improperly expended is hereby issued against Christine M. Partridge, Administrative Assistant, Richard Novak, Executive Director, The Hamilton Mutual Insurance Company and RLI Insurance Company, bonding agents for the Lorain Port Authority, jointly and severally, in the amount noted above and in favor of the Lorain Port Authority.

LORAIN PORT AUTHORITY
LORAIN COUNTY

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-001 |
|-----------------------|-----------------|

Finding For Recovery (continued)

On October 12, 2004, the above finding for recovery was repaid in full by the members of the Board of Directors and Executive Director from their personal accounts.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-002 |
|-----------------------|-----------------|

Certification of Purchase Orders

Ohio Rev. Code Section 5705.41(D) (1) requires in part that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purposes and is in the treasury or in the process of collection to the credit of an appropriate fund free from previous encumbrances.

This section also provides two exceptions to the standard requirement stated above:

- A. Then and Now Certificate: If no certificate is furnished as required, upon receipt of the fiscal officer's certificate both at the time that the contract or order was made and at the time that he is completing his certification that a sufficient sum was appropriated and free of any previous encumbrances, the taxing authority (Board of Directors) may authorize the issuance of a warrant in payment of the amount due upon such contract or order its approval by the taxing authority by resolution within thirty days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid. If approval is not made within thirty days, there is no legal liability on the part of the subdivision or taxing district.
- B. If the amount involved is less than one thousand dollars, (\$3,000 after April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board of Directors upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the taxing authority.

During 2003, nine out of sixty-seven expenditures tested (13%) were not certified by the Port Authority prior to incurring the obligation. It was also found that neither of the two exceptions above was utilized for the items found not to be in compliance. The Port Authority should certify the availability of funds prior to incurring the obligation for expenditures. The Port Authority should also implement the use of "then and now" certificates and blanket certificates as further permitted by Ohio Rev. Code Section 5705.41.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (continued)**

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-003 |
|-----------------------|-----------------|

Deficit Fund Balances

Ohio Rev. Code Section 5705.10 requires, in part, that monies paid into any fund be used only for the purposes for which such fund is established. The Port Authority had a negative cash fund balance in the following funds as of December 31, 2003:

| | |
|---|------------|
| Capital Project Funds: | |
| Eastside Launch Fund | \$(16,862) |
| Grove Site Fund | (75,209) |
| Advanced Automotive Systems Building Fund | (259) |

Negative cash fund balances are an indication that revenues from other sources were used to pay obligations of these funds. Additionally, money spent for purposes other than specified in grant agreements could result in the loss of future grant awards. Fund activity should be monitored to prevent future expenditures in excess of available resources. In those cases where additional funds are required, the resources should either be transferred or advanced to the fund in accordance with the Ohio Rev. Code Section 5705.10.

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-004 |
|-----------------------|-----------------|

Expenditures Exceeding Appropriations

Ohio Rev. Code Sections 5705.41(B) prohibits a subdivision or taxing unit from making an expenditure or an expenditure plus encumbrances unless it has been properly appropriated. The following funds and accounts had expenditures plus encumbrances exceeding appropriations as of July 31, 2003 and December 31, 2003:

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

| | |
|-----------------------|-----------------|
| FINDING NUMBER | 2003-004 |
|-----------------------|-----------------|

Expenditures Exceeding Appropriations

| <u>Account</u> | <u>Appropriation</u> | <u>Budgetary Expenditures</u> | <u>Variance</u> |
|--|----------------------|-----------------------------------|-----------------|
| <u>As of July 31, 2003:</u> | | | |
| General Fund: | | | |
| General Insurance | \$30,920 | \$36,344 | \$(5,424) |
| Professional Fees | 35,000 | 44,203 | (9,203) |
| Workers' Compensation | 500 | 1,249 | (749) |
| PortFest | 25,000 | 61,816 | (36,816) |
| Special Revenue Fund: | | | |
| Marine Patrol Fund: | | | |
| PERS | 0 | 679 | (679) |
| Workers' Compensation | 42 | 72 | (30) |
| Capital Project Funds: | | | |
| Grove Site Fund: | | | |
| Grove Site Improvements | 20,000 | 25,305 | (5,305) |
| <u>As of December 31, 2003:</u> | | | |
| Capital Project Funds: | | | |
| Advanced Automotive Systems | | | |
| Building Fund: | | | |
| City Loan Repayment | 226,903 | 255,268 | (28,365) |

When expenditures and commitments are allowed to exceed appropriations, the Port Authority incurs the risk that expenditures could exceed available resources resulting in a negative fund balance.

We recommend the Port Authority compare appropriations to expenditures plus encumbrances at the legal level of control to ensure compliance with this requirement. This comparison should be performed on a monthly basis, at a minimum.

| |
|--|
| 3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS |
|--|

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

LORAIN PORT AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 16, 2004**