SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006

Mary Taylor, CPA
Auditor of State

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southeastern Ohio Port Authority
Washington County
200 Putnam Street, Room 504
Marietta, Ohio 45750

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents. 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Southeastern Ohio Port Authority, Washington County, as of December 31, 2006, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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The Port Authority has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 1, 2007

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2006

Assets		
Equity in Pooled Cash and Cash Equivalents	$	114,576
Accounts Receivable		200,000
Loan Receivable		45,555
Capital Assets, Net of Depreciation		6,127
Prepaid Insurance		1,194
Total Assets		367,452
Liabilities		
Current Liabilities:		
Accounts Payable		5,291
Accrued Payroll Tax Liability		627
Current Portion of Loan Payable		2,002
Total Current Liabilities		7,920
Long-Term Liabilities (Net of Current Portion):		
Loan Payable		43,095
Total Long-Term Liabilities		43,095
Total Liabilities		51,015
Net Assets		
Invested in Capital Assets		6,127
Unrestricted		310,310
Total Net Assets	$	316,437

See accompanying notes to the basic financial statements

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006

Operating Revenues		
Donations	$	102,950
Intergovernmental		250,000
Miscellaneous		86
Total Operating Revenues		353,036
Operating Expenses		
Wages & Benefits		105,701
Professional Fees		8,576
Operating Costs		38,159
Depreciation Expense		363
Total Operating Expenses		152,799
Operating Gain		200,237
Non-Operating Revenue/(Expense):		
Interest Income		2,373
Interest and Fiscal Charges		(1,385)
Change in Net Assets		201,225
Net Assets Beginning of Year		115,212
Net Assets End of Year	$	316,437

See accompanying notes to the basic financial statements

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Donors	$ 102,950
Cash Received from Grants	50,000
Cash Payments for Employee Services and Benefits	(105,701)
Cash Payments for Goods and Services	(46,591)
Other Operating Revenues	86
Net Cash Provided by Operating Activities	744
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Debt	(1,943)
Interest and Fiscal Charges Paid on Debt	(1,384)
Net Cash Used for Capital and Related Financing Activities	(3,327)
Cash Flows from Investing Activities	
Capital Expenditure	(1,910)
Interest Earned from Bank Accounts	512
Interest from Business Loan	1,861
Principal from Business Loan	1,775
Net Cash Provided by Investing Activities	2,238
Net Increase in Cash and Cash Equivalents	(345)
Cash and Cash Equivalents Beginning of Year	114,921
Cash and Cash Equivalents End of Year	$ 114,576

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	$ 200,237
Depreciation	363
Changes in Assets and Liabilities:	
Increase in Accounts Receivable	(200,000)
Increase in Prepaid Insurance	(1,194)
Increase in Accounts Payable	711
Increase in Accrued Payroll Tax Liabilities	627
Net Cash Provided by Operating Activities	$ 744

See accompanying notes to the basic financial statements

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NOTE 1 - REPORTING ENTITY

The Southeastern Ohio Port Authority, Washington County (the Port Authority), was created during 2003 by the Washington County Commissioners pursuant to Sections 4582.202 through 4582.58, inclusive, of the Ohio Revised Code, for the purpose of promoting the manufacturing, commerce, distribution and research and development interests of Southeastern Ohio, including rendering financial and other assistance to such enterprises situated in the region and to induce the location in Southeastern Ohio of other manufacturing, commerce, distribution and research entities; to purchase, subdivide, sell and lease real property in Southeastern Ohio and erect or repair any building or improvement for the use of any manufacturing, commerce, distribution, or research and development enterprise in Southeastern Ohio.

The Port Authority Board of Directors consists of the number of Directors it deems necessary and they are appointed by the Washington County Commissioners. As such, it is considered a discretely presented component unit of Washington County. Currently, 11 Directors serve on the Board.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities provided they do not conflict with or contradict GASB pronouncements. The Port Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities.

A. Basis of Presentation

The Port Authority's financial statements consist of government-wide statements, including the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows.

B. Measurement Focus

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Port Authority are included on the Statement of Net Assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Port Authority finances and meets the cash flow needs of its business-type activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Revenues - Exchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

D. Budgetary Process

The Ohio Revised Code requires that the Port Authority Board of Directors prepare an annual budget.

Appropriations: Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level, and appropriations may not exceed estimated resources. The Board of Directors must annually approve appropriation measures and subsequent amendments.

Estimated Resources: Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

Encumbrances: The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Port Authority did not encumber all commitments required by Ohio law.

E. Cash

All cash assets are maintained in non-interest bearing checking accounts and an interest bearing savings account.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over five years of useful lives for Equipment and Furniture.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, or laws or regulations of other governments. The Port Authority did not have any restricted net assets.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

K. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - COMPLIANCE

The Port Authority did not properly encumber funds in accordance with Ohio Rev. Code Section 5750.41(D).

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Port Authority into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Port Authority Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Port Authority has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Protection of the Port Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;

3. Written repurchase agreements in securities listed above;

4. Bonds and other obligations of the State of Ohio or its political subdivisions;

5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;

6. No-loan money market mutual funds;

7. The State Treasurer's investment pool (STAROhio);

8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;

9. Commercial paper notes, corporate notes and bankers acceptances; and

10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the Port Authority has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Port Authority, and must be purchased with the expectation that it will be held to maturity.

Investment may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: Custodial credit risk for deposits is the risk that in the event of bank failure, the Port Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, the bank balance of the Port Authority's deposits was $115,584; $15,584 was exposed to custodial risk and $100,000 was covered by Federal depository insurance.

The Port Authority has no deposit policy for custodial risk beyond the requirements of State statute.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Port Authority or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 5 – RECEIVABLES

A. Intergovernmental Receivable

The Port Authority was awarded a grant of $200,000 by the United States Environmental Protection Agency (EPA) to carry out the Brownfield Assessment Grant from March 2006 to March 2008. Funds for the EPA Brownfield Grant are to be drawn down as invoices for services are rendered. The Port Authority had not drawn down any funds from the grant as of December 31, 2006.

B. Loan Receivable

The Port Authority loaned $50,000 to Kardex for economic development purposes. The loan was granted at 4.00% over a twenty-year period. Monthly payments from Kardex are expected to be $302. Accordingly, the Port Authority has recorded a loan receivable and interest revenue.

Future cash flows from the loan receivable are estimated to be as follows:

Year Ending December 31:	Total Payments	Principal Portion	Interest Portion
2007	$ 3,636	$ 1,847	$ 1,789
2008	3,636	1,923	1,713
2009	3,636	2,001	1,635
2010	3,636	2,082	1,554
2011	3,636	2,167	1,469
2012-2016	18,179	12,235	5,944
2017-2021	18,179	14,939	3,240
2022-2024	8,787	8,361	426
Total	$ 63,325	$ 45,555	$ 17,770

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was a follows:

	Balance December 31, 2005	Additions	Balance December 31, 2006	Accumulated Depreciation	Net Capital Assets
Business-Type Activities					
Depreciable Captial Assets:					
Equipment and Furniture	$ 0	$ 6,489	$ 6,489	$ (362)	$ 6,127

NOTE 7 – RISK MANAGEMENT

The Port Authority carries a Commercial General Liability Insurance Policy with limits of $1 million each occurrence, $100,000 damage to rented premises each occurrence, $5,000 med pay any one person, $1 million personal and advanced injury with a general aggregate of $2 million.

The Port Authority maintains a Non-Profit Organization and Management Liability Insurance Policy – Carrier's Duty to Defend Policy with $500,000 aggregate coverage to cover Board Officers and Directors.

In addition, the Port Authority carries a Public Official Bond for the Secretary/Treasurer in the amount of $25,000.

NOTE 8 – DEFINED PENSION PLAN

The Port Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

For the year ended December 31, 2006, members of all three plans were required to contribute 9 percent of their annual covered salaries. The Port Authority's contribution rate for pension benefits for 2006 was 13.7 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Port Authority's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2006 was $10,573. The full amount has been contributed for 2006.

NOTE 9 – POSTEMPLOYMENT BENEFITS

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statue. The 2006 local government employer contribution rate was 13.7 percent of covered payroll; 4.50 percent of covered payroll was the portion that was used to fund health care.

NOTE 9 – POSTEMPLOYMENT BENEFITS (Continued)

Benefits are advance-funded using the individual entry age actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care costs were assumed to increase between .5 and 6.00 percent annually for the next nine years and 4.00 percent annually after nine years.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund postemployment benefits were $3,473. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2005 (the latest information available), were $11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. To improve the solvency of the Health Care Fund, OPERS created a separate investment pool for heath care assets. Member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

NOTE 10 - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2006 was as follows:

	Interest Rate	Balance December 31, 2005	Deletions	Balance December 31, 2006	Due Within One Year
Business-Type Activities					
Loan Payable					
Washington County Commissioners	3.00%	47,040	$ 1,943	$ 45,097	$ 2,002

The Washington County Loan relates to an economic development loan to the Port Authority for $50,000 in 2004. The Port Authority, in turn, loaned the monies received to a local business. The Port Authority is required to make monthly payments of $277.30 to Washington County.

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

NOTE 10 - LONG-TERM DEBT (Continued)

Year Ending December 31:	Principal	Interest	Total
2007	$ 2,002	$ 1,326	$ 3,328
2008	2,063	1,265	3,328
2009	2,126	1,202	3,328
2010	2,190	1,138	3,328
2011	2,257	1,071	3,328
2012-2016	12,357	4,281	16,638
2017-2021	14,354	2,284	16,638
2022-2024	7,748	294	8,042
Total	$ 45,097	$ 12,861	$ 57,958

NOTE 11 - RELATED PARTY TRANSACTION

In 2006 the Port Authority paid Promanco $2,000 for improvements to office space. Promanco is owned by Board member R. John Lehman.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southeastern Ohio Port Authority
Washington County
200 Putnam Street, Room 504
Marietta, Ohio 45750

To the Board of Directors:

We have audited the financial statements of the business-type activities of the Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2006, which collectively comprise the Port Authority's basic financial statements and have issued our report thereon dated August 1, 2007. 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 the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Port Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Port Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Port Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Port Authority's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2006-001.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Port Authority's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe the significant deficiency described above is not a material weakness.

We also noted certain internal control matters that we reported to the Port Authority's management in a separate letter dated August 1, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Port Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 an opinion. The results of our tests disclosed an instance of noncompliance or other matter that we must report under *Government Auditing Standards,* which is described in the accompanying Schedule of Findings as item 2006-001.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Port Authority's management in a separate letter dated August 1, 2007.

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

We intend this report solely for the information and use of the finance committee, management and Board of Directors. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 1, 2007

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2006-001

Noncompliance Citation and Significant Deficiency

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above. The main exceptions are: “then and now” certificates, blanket certificates and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. “Then and Now” certificate - If the fiscal officer can certify that both at the time that the contract or order was made (“then”), and at the time that the fiscal officer is completing the certification (“now”), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Port Authority can authorize the drawing of a warrant for the payment of the amount due. The Port Authority has thirty days from receipt of the “then and now” certificate to approve payment by ordinance or resolution.

   Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance 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 Port Authority.

2. Blanket Certificates - Fiscal officers may prepare so-called “blanket” certificates not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation. Purchase orders may not exceed an amount established by resolution or ordinance of the legislative authority, and cannot extend past the end of the fiscal year. In other words, blanket certificates cannot be issued unless there has been an amount approved by the legislative authority for the blanket.

3. Super Blanket Certificate – The Port Authority may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Port Authority did not properly certify the availability of funds prior to purchase commitment for 63 percent of the expenditures tested, and there was no evidence that the Port authority followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds.

The Port Authority did not establish a threshold amount for blanket certificates, and it appears as though more than one blanket certificate was outstanding for particular lines.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-001 (Continued)

Noncompliance Citation and Significant Deficiency (Continued)

In addition, the following certifying errors were noted:

- purchase orders frequently were not signed by the Secretary-Treasurer;
- purchase orders were frequently dated by the month (such as June, 2006) instead of by a specific date so it was not always possible to determine if expenditures were properly certified; and
- purchase orders were not issued through the QuickBooks system and no manual log was maintained to track the purchase orders.

Without these certifications, the management of the Port Authority lost budgetary control over expenditures and this condition could allow noncompliance with Ohio Revised Code section 5705.41(B) to occur, and some of the purchase orders were invalid since they were not signed by the Secretary-Treasurer and were not properly dated.

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Port Authority's funds exceeding budgetary spending limitations, we recommend that the Secretary-Treasurer certify that the funds are or will be available prior to an obligation being incurred by the Port Authority. When prior certification is not possible, "then and now" certification should be used.

We also recommend that the Board of Directors establish an amount for blanket purchase orders and ensure that only one blanket certificate be outstanding per line. The Secretary-Treasurer and Executive Assistant should familiarize themselves with Ohio Rev. Code concerning prior certification and should implement a process that provides both compliance and effectiveness.

Officials' Response: Although such controls were not in place for all of 2006, the board members of the Southeastern Ohio Port Authority (SeOPA) managed such controls through other processes, such as periodic review of expenses, account reconciliations, and financial statements as well as the Executive Committee retention of all check signing authority. The Finance Committee of the board was also active throughout 2006. In our opinion, such practices mitigated the chance for loss of budgetary control over expenditures that might have occurred because of an improperly completed purchase order.

Nonetheless, SeOPA has instituted major improvements to its encumbrance and expenditure process. We have summarized the progress below:

In 2006, the Southeastern Ohio Port Authority (SeOPA) began full-time operation. A full-time Executive Director was hired to begin March 13, 2006. On April 24, 2006, a part-time Executive Assistant began (20 hours per week).

Bookkeeping functions for SeOPA were handled by the Board Treasurer and his assistant through June 30, 2006, using Quick Books Accounting software. The Treasurer developed a two-part NCR Purchase Order Form sometime during the first quarter of 2006 and the forms were printed and received by SeOPA during the second quarter of 2006. Consistent use of Purchase Orders was hard to master and often forgotten—not intentionally but rather because the staff was "learning" the day to day operation of the Port Authority.

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-001 (Continued)

Noncompliance Citation and Significant Deficiency (Continued)

Officials' Response (Continued): The Executive Director and Executive Assistant were charged with setting up the new Port Authority Office; ordering equipment, supplies and furniture; developing office and personnel procedures; designing letterhead, envelopes and marketing documents in addition to maintaining the efficient day to day operation of the Port Authority.

Over the remaining months of 2006, the staff of the Port Authority put together a Procurement Policy, revised the Purchase Order System, and attempted to be steadfast in the proper use and procedures which govern contracts or orders that incur any expenditure of funds.

The current Purchase Order system was recently reviewed by staff from the Auditor's Office and met with their approval.

Further refinement of the Quick Books accounting system and the purchasing process continue as the Executive Assistant works with staff accountants from Tenney, Bailey & Associates. In addition, the Executive Assistant has completed two on-line Quick Book classes through Washington State Community College to improve her knowledge and use of the Quick Books System. Plans are being made for the Executive Assistant to attend Continuing Education Programs offered by the State Auditor's Office for public entities. Additional research into and review of the Ohio Revised Code and Ohio's Open Government Resource Manual continue to improve the operation and budgetary compliance of the Southeastern Ohio Port Authority.

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2005-001	Ohio Rev. Code Section 4582.13 states that the Port Authority shall annually prepare a budget. The Port Authority did not prepare a budget for 2005. Therefore, annual expenses exceeded appropriations contrary to Ohio Rev. Code Section 5705.41(B).	Yes	Corrected.

Mary Taylor, CPA
Auditor of State

SOUTHEASTERN OHIO PORT AUTHORITY

WASHINGTON 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
OCTOBER 9, 2007

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