



Mary Taylor, CPA
Auditor of State

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

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Mary Taylor, CPA
Auditor of State

Zanesville Muskingum County Port Authority
Muskingum County
205 North Fifth Street
Zanesville, Ohio 43701

To the Members of the Board:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to an interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an adverse opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

Mary Taylor

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Auditor of State

October 17, 2007

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Zanesville Muskingum County Port Authority
Muskingum County
205 North Fifth Street
Zanesville, Ohio 43701

To the Members of the Board:

We have audited the accompanying financial statements of the Zanesville Muskingum County Port Authority, Muskingum County, Ohio (the Port Authority), as of and for the years ended December 31, 2006 and 2005. 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 the 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.

As described more fully in Note 2, the Port Authority changed its method of accounting for conduit debt in 2005.

As described more fully in Note 1, the Port Authority has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Instead of the combined funds the accompanying financial statements present, GAAP require presenting entity wide statements and also presenting the Port Authority's larger (i.e., major) funds separately. While the Port Authority does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to GAAP presentation requirements. The Auditor of State permits, but does not require port authorities to reformat their statements. The Port Authority has elected not to follow GAAP statement formatting requirements. The following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the years ended December 31, 2006 and 2005 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Port Authority as of December 31, 2006 and 2005, or its changes in financial position for the years then ended.

Also, 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 the Zanesville Muskingum County Port Authority, Muskingum County, Ohio, as of December 31, 2006 and 2005, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 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.



Mary Taylor, CPA
Auditor of State

October 17, 2007

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	<u>Governmental Fund Types</u>		Totals (Memorandum Only)
	<u>General</u>	<u>Capital Projects</u>	
Cash Receipts:			
Intergovernmental Receipts	\$201,240	\$14,590	\$215,830
Licenses, Permits, and Fees	20,080		20,080
Rental Income	4,920		4,920
Earnings on Investments			0
Miscellaneous	10,722		10,722
	<u>236,962</u>	<u>14,590</u>	<u>251,552</u>
Total Cash Receipts			
	<u>236,962</u>	<u>14,590</u>	<u>251,552</u>
Cash Disbursements:			
Salaries and Benefits	162,646		162,646
Professional Services	102,018	294,651	396,669
Repairs and Maintenance	1,151		1,151
Supplies and Materials	3,412		3,412
Marketing and Advertising	5,740		5,740
Travel and Recruitment	9,994		9,994
Utilities	9,066		9,066
Rent	9,000		9,000
Miscellaneous	10,979		10,979
Capital Outlay	166,917		166,917
Contractual Services	125,076		125,076
	<u>605,999</u>	<u>294,651</u>	<u>900,650</u>
Total Cash Disbursements			
	<u>605,999</u>	<u>294,651</u>	<u>900,650</u>
Total Cash Receipts Over/(Under) Cash Disbursements	<u>(369,037)</u>	<u>(280,061)</u>	<u>(649,098)</u>
Other Financing Receipts/(Disbursements):			
Sale of Capital Assets	324,000		324,000
Loan from County		289,289	289,289
Advances-In	50,000		50,000
Advances-Out		(50,000)	(50,000)
	<u>374,000</u>	<u>239,289</u>	<u>613,289</u>
Total Other Financing Receipts/(Disbursements)			
	<u>374,000</u>	<u>239,289</u>	<u>613,289</u>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	4,963	(40,772)	(35,809)
Fund Cash Balances, January 1	161,307	40,772	202,079
	<u>161,307</u>	<u>40,772</u>	<u>202,079</u>
Fund Cash Balances, December 31	<u>\$166,270</u>	<u>\$0</u>	<u>\$166,270</u>
Reserves for Encumbrances, December 31	<u>\$24,255</u>	<u>\$99,010</u>	<u>\$123,265</u>

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

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$2,858,440</u>
Total Non-Operating Cash Receipts	<u>2,858,440</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>2,931,041</u>
Total Non-Operating Cash Disbursements	<u>2,931,041</u>
Net Receipts Over/(Under) Disbursements	(72,601)
Fund Cash Balance, January 1	<u>113,749</u>
Fund Cash Balance, December 31	<u>\$41,148</u>

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

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>Governmental Fund Types</u>			Totals (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	
Cash Receipts:				
Intergovernmental Receipts		\$14,250	\$32,842	\$47,092
Licenses, Permits, and Fees	\$15,375			15,375
Rental Income	4,450			4,450
Earnings on Investments				0
Miscellaneous	5,604			5,604
Total Cash Receipts	25,429	14,250	32,842	72,521
Cash Disbursements:				
Salaries and Benefits	229,607	478		230,085
Professional Services	53,358		42,070	95,428
Repairs and Maintenance	1,056			1,056
Supplies and Materials	1,738	12		1,750
Marketing and Advertising	5,069			5,069
Travel and Recruitment	7,668			7,668
Utilities	8,448	80		8,528
Rent	9,000			9,000
Miscellaneous	14,240			14,240
Capital Outlay	57,704			57,704
Contractual Services	50,000			50,000
Total Cash Disbursements	437,888	570	42,070	480,528
Total Cash Receipts Over/(Under) Cash Disbursements	(412,459)	13,680	(9,228)	(408,007)
Other Financing Receipts/(Disbursements):				
Sale of Capital Assets	350,511			350,511
Advances-In	27,958		60,000	87,958
Advances-Out	(60,000)	(17,958)	(10,000)	(87,958)
Total Other Financing Receipts/(Disbursements)	318,469	(17,958)	50,000	350,511
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(93,990)	(4,278)	40,772	(57,496)
Fund Cash Balances, January 1 (Restated)	255,297	4,278	0	259,575
Fund Cash Balances, December 31	\$161,307	\$0	\$40,772	\$202,079
Reserves for Encumbrances, December 31	\$10,676	\$0	\$70,130	\$80,806

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

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
AGENCY FUND
FOR THE YEAR ENDED DECEMBER 31, 2005

	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$1,614,775</u>
Total Non-Operating Cash Receipts	<u>1,614,775</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>2,375,028</u>
Total Non-Operating Cash Disbursements	<u>2,375,028</u>
Net Receipts Over/(Under) Disbursements	(760,253)
Fund Cash Balance, January 1	<u>874,002</u>
Fund Cash Balance, December 31	<u>\$113,749</u>

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

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Zanesville Muskingum County Port Authority, Muskingum County, Ohio (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 operates under the direction of a five member Board of Directors. The Board is comprised of two members appointed by the City of Zanesville, two members appointed by Muskingum County, and one member appointed jointly by the City and the County. The Port Authority is authorized to purchase, construct, sell, lease and operate facilities within its jurisdiction as enumerated in Ohio Revised Code Sections 4582.21 through 4582.59.

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

Investments held by trustees are reported as assets. 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 sale are recorded as receipts or disbursements, respectively.

Beginning July 1, 2004, the Port Authority contracted with the Muskingum County Auditor to act as fiscal agent. The County Treasurer is custodian for this cash and the Port Authority's assets are held in the County's cash and investment pool, and are valued at the County Treasurer's reported carrying amount.

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 Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

The Port Authority had the following significant Special Revenue Fund during 2005:

Workforce Development Center Fund - This fund received monies from Muskingum County to assist people in obtaining employment in Muskingum County. As of December 31, 2004, the Workforce Development Center ceased operations. As of December 31, 2004, \$19,955 of an advance from the General Fund to the Workforce Development Center Fund remained outstanding. On March 2, 2005, the Port Authority was reimbursed \$12,253 from Muskingum County for Workforce Development Center expenditures made through January 31, 2005. The amount remaining in the Workforce Development Fund was used to repay a portion of the advance owed the General Fund. The remaining portion of the advance owed was forgiven by the Board of Directors during 2005. During 2006, this fund had no activity.

3. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Port Authority had the following significant Capital Project Funds:

JEDD/Bilco Project Fund - This fund received a loan from Muskingum County for site preparation expenses related to the site improvement project for The Bilco Company. This fund will begin to receive monies from the Washington Township Joint Economic Development District to assist in improvements related to the project beginning in fiscal year 2007.

Granger Drive Fund - This fund receives grant monies from the Ohio Department of Development for construction and improvements related to the Granger Drive extension project.

4. Agency Fund

Funds for which the Port Authority are acting in an agency capacity are classified as agency funds. The Port Authority had the following significant Agency Fund:

Transportation Improvement District Fund - This fund accounts for the operations of the Transportation Improvement District for which the Port Authority acts as administrative agent.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

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

3. Encumbrances

The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Port Authority did not encumber all commitments required by Ohio law. Management has included audit adjustments in the accompanying budgetary presentations for material items that should have been encumbered.

A summary of 2006 and 2005 budgetary activity appears in Note 4.

F. Property, Plant and Equipment

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

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Port Authority's basis of accounting.

2. ACCOUNTING CHANGE

Prior to 2004, the Port Authority reported debt service activity associated with its conduit debt in a debt service fund. Because the obligations are payable solely from the payments received by the trustees from the borrowers or other sources designated in the related agreements and the Port Authority has no obligation to repay the debt beyond the specific third party revenue sources pledged under the debt agreements, effective January 1, 2005 and as permitted under GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*, the Port Authority has changed its accounting for conduit debt by no longer reporting the debt activity in a debt service fund.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

2. ACCOUNTING CHANGE (Continued)

The effect of the change in accounting for conduit debt resulted in the elimination of the debt service fund, which previously had a fund balance of \$368,063, representing the amount held in trust for the repayment of conduit debt.

3. EQUITY IN POOLED CASH AND INVESTMENTS

The Port Authority maintains a cash and investment pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments.

Deposits with Fiscal Agent: At December 31, 2006 and 2005, the Port Authority had cash and investments with a carrying amount of \$207,418 and \$315,828, respectively, which is included in and collateralized with Muskingum County's cash management pool.

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2006 and 2005 follows:

2006 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$710,000	\$560,962	(\$149,038)
Capital Projects	1,389,968	303,879	(1,086,089)
Total	\$2,099,968	\$864,841	(\$1,235,127)

2006 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$694,457	\$630,254	\$64,203
Capital Projects	1,326,740	393,661	933,079
Total	\$2,021,197	\$1,023,915	\$997,282

2005 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$873,010	\$375,940	(\$497,070)
Special Revenue	60,000	14,250	(45,750)
Capital Projects	598,000	32,842	(565,158)
Total	\$1,531,010	\$423,032	(\$1,107,978)

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

2005 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$568,499	\$448,564	\$119,935
Special Revenue	59,952	570	59,382
Capital Projects	598,000	112,200	485,800
Total	\$1,226,451	\$561,334	\$665,117

5. OPERATING SUBSIDIES AND OTHER GRANTS

Prior to January 1, 2004, the Port Authority received operating subsidies from Muskingum County and the City of Zanesville to pay the operational expenses of the Port Authority. This funding was temporarily suspended by the County and the City beginning in fiscal year 2004. During 2006, the Port Authority began receiving operating subsidies from Muskingum County again and these subsidies totaled \$120,000.

The Port Authority also applied for and received grant funds from the Ohio Department of Development to assist in capital projects undertaken.

6. DEBT

Debt outstanding at December 31, 2006 was as follows:

	Principal	Interest Rate
Muskingum County Loan - Business Site Preparation	\$289,289	0.000%

On November 16, 2006, the Port Authority entered into an agreement with Muskingum County that provided for the County to loan the Port Authority \$289,289 to be used to prepare a business site at the East Pointe Industrial Park. The Port Authority agreed to repay the loan with proceeds from the City of Zanesville – Washington Township Joint Economic Development District funds or note proceeds or other means within six months of the date of the agreement.

7. REAL ESTATE AGREEMENTS

The Port Authority has entered into several agreements for the acquisition of real estate at the North Pointe and East Pointe locations whereby the Port Authority is required to return a portion of the proceeds of subsequent real estate sales to the parties from whom the real estate was originally acquired. Gross proceeds from real estate sales have been recorded as Other Financing Receipts – Sale of Capital Assets while the payments are recorded as Cash Disbursements - Contractual Services on the financial statements.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

8. COOPERATIVE AGREEMENT WITH EMCO USA, LLC AND CARDINAL HEALTH

On March 7, 2006, the Port Authority entered into a cooperative agreement with EMCO USA, LLC and Cardinal Health to provide a funding of \$100,000 to EMCO to assist EMCO in its purchase of property at 1000 Linden Avenue, Zanesville. The funding is to be paid to Cardinal Health on behalf of EMCO in \$33,333.33 increments, the first of which was paid during 2006, with the second and third payments to be made in 2007 and 2008. As consideration for the funding provided by the Port Authority, EMCO has agreed to meet certain conditions, including commitments to job creation and retention. Should EMCO not meet the agreed upon conditions, the funding may be repaid to the Port Authority. However, the Port Authority anticipates that EMCO will meet the agreed upon conditions. The Port Authority has recorded the payment to EMCO as Cash Disbursements – Contractual Services on the 2006 financial statements.

9. RETIREMENT SYSTEMS

The Port Authority's employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS 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 2006 and 2005, members of PERS contributed 9.0% and 8.5%, respectively of their gross salaries. The Port Authority contributed an amount equal to 13.70% and 13.55%, respectively, of participants' gross salaries. Muskingum County serves as the Port Authority's fiscal agent and is responsible for paying contributions. Muskingum County has paid all contributions required through December 31, 2006.

10. RISK MANAGEMENT

Commercial Insurance

The Port Authority obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Automobile liability;
- Public officials liability; and
- Employment practices liability;

11. CONDUIT DEBT OBLIGATIONS

The Port Authority has issued revenue bonds to provide financial assistance to private-sector, governmental and non-profit entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. These obligations are payable solely from pledged lease and loan receipts and are not otherwise obligations of the Port Authority. The obligations do not constitute a debt or pledge of the faith and credit of the Port Authority and accordingly have not been reported in the accompanying financial statements.

As of December 31, 2006, there were four series of revenue bonds outstanding. The total of the original issue amounts for the four series is \$17,925,000, of which \$14,875,000 remained outstanding at December 31, 2006.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2006 AND 2005
(Continued)**

12. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

13. RELATED PARTY TRANSACTIONS

The Port Authority currently shares office space with the Transportation Improvement District in the Welcome Center, located at 205 North Fifth Street, Zanesville. The Port Authority acts as administrative agent for the Transportation Improvement District, which pays \$10,000 each year for these services.

As disclosed in Note 5 above, Muskingum County provided the Port Authority operating subsidies of \$120,000 during 2006.

14. SUBSEQUENT EVENTS

On June 28, 2007, the Board of Muskingum County Commissioners agreed to extend the due date for the repayment of the loan from May 16, 2007 to November 16, 2007. The Port Authority repaid \$200,000 of the loan on August 23, 2007.

As authorized by Resolution 2007-25, dated July 18, 2007, the Port Authority issued \$2,000,000 in conduit debt to finance the acquisition and installation of plastic injection mold machinery at The Bilco Company facility located at Jim Granger Drive, Zanesville, Ohio.

As authorized by Resolution 2007-12, dated May 16, 2007, the Port Authority issued \$2,500,000 in conduit debt to finance the acquisition, construction, renovation, installation and equipping of a concrete precast manufacturing facility at the United Precast, Inc. location at Roadhouse Lane, Mount Vernon, Ohio.

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Mary Taylor, CPA

Auditor of State

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

Zanesville Muskingum County Port Authority
Muskingum County
205 North Fifth Street
Zanesville, Ohio 43701

To the Members of the Board:

We have audited the financial statements of the Zanesville Muskingum County Port Authority, Muskingum County, Ohio (the Port Authority), as of and for the year ended December 31, 2006 and 2005, and have issued our report thereon dated October 17, 2007, wherein we noted the Port Authority followed accounting principles the Auditor of State prescribes rather than accounting principles generally accepted in the United States of America and the Port Authority changed its method of accounting for conduit debt in 2005. 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 do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Port Authority's management in a separate letter dated October 17, 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 matters that we must report under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings as item 2006-001.

We also noted a noncompliance matter not requiring inclusion in this report that we reported to the Port Authority's management in a separate letter dated October 17, 2007.

We intend this report solely for the information and use of management and Board of Directors. It is not intended for anyone other than these specified parties.



Mary Taylor, CPA
Auditor of State

October 17, 2007

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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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” Certificates** - 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 Board can authorize the drawing of a warrant for the payment of the amount due. The Board has thirty days from the 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 Board.

2. **Blanket Certificate** - Fiscal officers may prepare “blanket” certificates not exceeding an amount established by resolution or ordinance of the Board against any specific line item account not extending beyond the end of the 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. Blanket certificates cannot be issued unless there has been an amount approved by the Board for the blanket.
3. **Super Blanket Certificate** - The Board 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 extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line-item appropriation.

While the Port Authority followed procedures it believed would result in the effective encumbrance of appropriations, certain provisions of the aforementioned budgetary law were not met for a majority of the transactions we tested. The Port Authority utilized blanket certificates but the Board of Directors had not approved a maximum blanket certificate amount prior to blanket certificates being issued. In addition, there was more than one blanket certificate outstanding at one particular time for one particular line item appropriation for 47% of the certificates tested. Furthermore, 12 of the 27 blanket certificates extended beyond fiscal year end. Of the certificates that extended beyond fiscal year end, 4 payments made for 2006 related commitments were charged against 2005 appropriations/blanket certificates.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005
(Continued)**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)
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FINDING NUMBER 2006-001 (Continued)

Noncompliance Citation and Significant Deficiency (Continued)

Ohio Rev. Code Section 5705.41(D)(1) (Continued)

To improve controls over disbursements and to help reduce the possibility of the Port Authority's funds exceeding budgetary spending limitations, we recommend the following:

1. A maximum blanket certificate amount should be established by the Board via resolution.
2. Only the amount of outstanding purchase commitments on certificates, including blanket certificates, should remain encumbered at year end and recorded as carry over encumbrances in the subsequent year.
3. Only one blanket certificate should be outstanding per line item appropriation.
4. The use of super blanket certificates should be considered in certain circumstances.
5. When utilizing blanket and super blanket certificates, the Port Authority should designate on the face of the certificate the type of certificate issued (blanket or super blanket).

Officials' Response:

The Board adopted a resolution on June 20, 2007 specifying the maximum amount for blanket certificates and intends to close out blanket certificates at year end. The Board also intends to implement the use of super blanket purchase orders when appropriate.

**ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2006 AND 2005**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2004-001	Noncompliance Citation and Reportable Condition - Ohio Rev. Code § 5705.41(D) – Fiscal Officer's Certification	No	Repeated in the current audit as finding number 2006-001.
2004-002	Noncompliance Citation - Ohio Rev. Code § 5705.10 – Negative Fund Cash Balances	Corrected	
2004-003	Noncompliance Citation – Ohio Rev. Code § 5705.41(B) – Expenditures Limited by Appropriation Authority	Corrected	



Mary Taylor, CPA
Auditor of State

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY
MUSKINGUM 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 20, 2007