

Southern Ohio Port Authority

Scioto County, Ohio

Regular Audit

January 1, 2005 through December 31, 2006

Fiscal Years Audited Under GAGAS: 2006 and 2005

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Mary Taylor, CPA
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Southern Ohio Port Authority
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We have reviewed the *Independent Auditor's Report* of the Southern Ohio Port Authority, Scioto County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2005 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Southern Ohio Port Authority is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 12, 2008

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Southern Ohio Port Authority
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For the Years Ended December 31, 2006 and 2005

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Independent Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the Southern Ohio Port Authority, Scioto County, Ohio, (the Port Authority), as of and for the years ended December 31, 2006 and 2005, 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 *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 the 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 opinions.

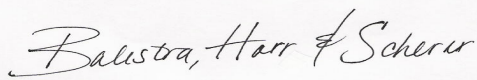
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Port Authority, as of December 31, 2006 and 2005, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis information on pages 3 through 6 are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2008, on our consideration of the Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Southern Ohio Port Authority
Independent Auditor's Report
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As described in Note 9, the Port Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposits and Investment Risk Disclosure*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer, CPAs, Inc.
July 1, 2008

Southern Ohio Port Authority
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

The discussion and analysis of the Southern Ohio Port Authority's financial performance provides an overview of the Port Authority's financial performance as a whole for the years ended December 31, 2006 and 2005. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current years and prior year is required to be presented, and is presented in the MD&A.

Financial Highlights

Key financial highlights for 2006 and 2005 follow:

- Total assets decreased \$240,295, or 5.20%, between 2005 and 2006 and increased \$796,608, or 17.38%, between 2004 and 2005. Total liabilities decreased \$586,804, or 22.09%, between 2005 and 2006 and increased \$548,997, or 20.67%, between 2004 and 2005. Total net assets increased \$346,508, or 17.99%, between 2005 and 2006 and decreased \$247,611, or 12.85%, between 2004 and 2005.
- Total revenues decreased \$833,371, or 45%, between 2005 and 2006 and increased \$886,900, or 109%, between 2004 and 2005. Total expenditures decreased \$932,268, or 61%, between 2005 and 2006 and decreased \$1,062,009, or 41%, between 2004 and 2005.

Using this Annual Financial Report

This financial report contains the basic financial statements of the Port Authority, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Port Authority reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore the entity wide and the fund presentations information is the same.

Statement of Net Assets

The statement of net assets answers the question, "How did we do financially during the year?" This statement include all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by private sector companies. This basis of accounting takes into account all revenues and expenses during the year regardless of when the cash is received or paid.

This statement reports the Port Authority's net assets, however, in evaluating the overall position and financial viability of the Port Authority, non-financial information, such as the condition of the Port Authority's capital assets, will also need to be evaluated.

Southern Ohio Port Authority
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

Table 1 provides a summary of the Port Authority's net assets for 2006 and 2005 compared to 2004.

Table 1
Net Assets

	2006	2005	2006/2005 Change	2004	2005/2004 Change
Assets					
Current and Other Assets	\$931,702	\$1,171,997	\$(240,295)	\$375,389	\$796,608
Capital Assets	3,409,976	3,409,977	(1)	3,409,977	0
Total Assets	4,341,678	4,581,974	(240,296)	3,785,366	796,608
Liabilities					
Other Liabilities	465,466	1,052,270	(586,804)	503,273	548,997
Long-Term Liabilities	1,603,379	1,603,379	0	1,603,379	0
Total Liabilities	2,068,845	2,655,649	(586,801)	2,106,652	548,997
Net Assets					
Invested in Capital Assets Net of Debt	1,806,598	1,806,598	0	1,590,082	216,516
Unrestricted	466,235	119,727	346,508	88,632	31,095
Total Net Assets	\$2,272,833	\$1,926,325	\$346,508	1,678,714	\$247,611

The decrease in total assets between 2005 and 2006 was due primarily to the completion of a grant funded project. Also the decrease in the liabilities between 2005 and 2006 was directly related to the completion of a grant funded project.

Southern Ohio Port Authority
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

Table 2 provides a summary of changes in the Port Authority's net assets for 2006 and 2005 as well as revenue and expense comparison to 2004.

Table 2
Changes in Net Assets

	2006	2005	2006/2005 Change	2004	2005/2004 Change
<i>Revenues</i>					
<i>Operating Revenue</i>					
Intergovernmental	\$936,802	\$1,704,267	\$(767,465)	\$817,367	\$886,900
Rent	7,905	9,285	(1,380)	14,297	(5,012)
Miscellaneous	9,717	80,000	(70,283)	1,600	78,400
<i>Total operating revenue</i>	<u>954,424</u>	<u>1,793,552</u>	<u>(839,128)</u>	<u>833,264</u>	<u>960,288</u>
<i>Non-operating revenue</i>					
Interest income	8,264	2,507	5,757	2,850	(343)
Sale of Assets	0	0	0	1,535,400	(1,535,400)
<i>Total non-operating revenue</i>	<u>8,264</u>	<u>2,507</u>	<u>5,757</u>	<u>1,538,250</u>	<u>(1,535,743)</u>
<i>Total revenue</i>	<u>962,688</u>	<u>1,796,059</u>	<u>(833,371)</u>	<u>2,371,514</u>	<u>(575,455)</u>
<i>Expenses</i>					
<i>Operating expenses</i>					
Administrative	37,256	16,368	20,888	8,297	8,071
Material & Supplies	4,110	2,089	2,021	4,452	(2,363)
Contractual Services	574,514	1,529,266	(954,752)	942,367	586,899
Professional Fees	300	725	(425)	18,619	(17,894)
Other	0	0	0	65	(65)
<i>Total operating expenses</i>	<u>616,180</u>	<u>1,548,448</u>	<u>(932,268)</u>	<u>973,800</u>	<u>574,648</u>
<i>Non-operating expenses</i>					
Interest expense	0	0	0	101,257	(101,257)
Principle payment	0	0	0	1,535,400	(1,535,400)
<i>Total non-operating expenses</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,636,657</u>	<u>(1,636,657)</u>
<i>Total expenses</i>	<u>616,180</u>	<u>1,548,448</u>	<u>(932,268)</u>	<u>2,610,457</u>	<u>(1,062,009)</u>
<i>Change in net assets</i>	346,508	247,611	98,897	(238,943)	486,554
<i>Beginning net assets</i>	<u>1,926,325</u>	<u>1,678,714</u>	<u>247,611</u>	<u>1,917,657</u>	<u>(238,943)</u>
<i>Ending net assets</i>	<u>2,272,833</u>	<u>1,926,325</u>	<u>\$346,508</u>	<u>1,678,714</u>	<u>(\$247,611)</u>

The increase in total revenues between 2005 and 2006 was due largely to an increase in capital grants. The increase in total expenses between 2005 and 2006 was due largely to the increase in federal grants that were intended for a specific purpose.

The decrease in total revenues between 2004 and 2005 was due largely to a decrease in federal grants that was awarded to the Authority. The decrease in total expenses between 2004 and 2005 was due largely to the reduction in the amount of federal and state grants that was awarded to the Authority during the year.

Capital Assets

At December 31, 2006 and 2005, the capital assets of the Authority consisted of land held for resale. Balances were \$3,409,977 and \$3,409,977 at December 31, 2006 and 2005, respectively. See Note 3 of the notes to the basic financial statements for more detailed information on the Authority's capital assets.

Southern Ohio Port Authority
Management's Discussion and Analysis
For the Years Ended December 31, 2006 and 2005

Debt Administration

The Authority finances construction in progress primarily through the issuance of notes. At December 31, 2006 and 2005, debt outstanding was \$1,603,379 and \$1,603,379, respectively. See Note 4 of the notes to the basic financial statements for more detailed information on the Authority's debt obligations.

Request for Information

This financial report is designed to provide a general overview of the Port Authority's finances and to show the Port Authority's accountability for the money it receives, spends and invests. Questions concerning any of the information provided in this report or requests for additional information should be directed to Robert Walton, Commissioner, 433 Third St, P.O. Box 1525, Portsmouth, Ohio 45662.

Southern Ohio Port Authority
Statement of Net Assets
December 31, 2006 and 2005

	2006	2005
Assets:		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 465,658	\$ 119,152
Grants receivable	321,166	907,967
Loans receivable	144,878	144,878
Total Current Assets	931,702	1,171,997
<i>Noncurrent Assets:</i>		
Property held for resale	3,409,976	3,409,977
Total Assets	4,341,678	4,581,974
Liabilities:		
<i>Current liabilities:</i>		
Interest Payable	111,754	111,757
Accounts Payable	32,546	32,546
Unearned Revenue	321,166	907,967
Total current liabilities:	465,466	1,052,270
<i>Long term liabilities:</i>		
Due in more than one year	1,603,379	1,603,379
Total liabilities:	2,068,845	2,655,649
Net assets:		
Invested in capital assets net of related debt	1,806,598	1,806,598
Unrestricted net assets	466,235	119,727
Total net assets:	\$ 2,272,833	\$ 1,926,325

See accompanying notes to the financial statements.

Southern Ohio Port Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2006 and 2005

	2006	2005
Operating revenues:		
Intergovernmental	936,802	\$ 1,704,267
Rent	7,905	9,285
Charges for Services	-	80,000
Miscellaneous	9,717	-
Total operating revenues:	954,424	1,793,552
Operating expenses:		
Administrative	37,256	16,368
Materials & Supplies	4,110	2,089
Contractual Services	574,514	1,529,266
Professional Fees	300	725
Total operating expenses:	616,180	1,548,448
Operating income:	338,244	245,104
Non-operating revenues/(expenses):		
Interest income	8,264	2,507
Total non-operating revenues/(expenses):	8,264	2,507
Change in Fund Net Assets	346,508	247,611
Net assets at beginning of year	1,926,325	1,678,714
Net assets at end of year	\$ 2,272,833	\$ 1,926,325

See accompanying notes to the financial statements.

Southern Ohio Port Authority
Statement of Cash Flows
For the Year Ended December 31, 2006 and 2005

Increase/(decrease) in cash and cash equivalents	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from Grants	\$ 936,801	\$ 1,704,266
Cash received from rental income	7,905	9,285
Cash received from program income	9,716	80,000
Cash payments for contractors	(574,514)	(1,529,991)
Cash payments for other	<u>(41,664)</u>	<u>(202,426)</u>
Net cash provided by operating activities:	338,244	61,134
Cash flows from investing activities:		
Interest	<u>8,262</u>	<u>2,507</u>
Net cash provided by investing activities:	<u>8,262</u>	<u>2,507</u>
Net increase in cash and cash equivalents:	346,506	63,641
Cash and cash equivalents at beginning of year	<u>119,152</u>	<u>55,511</u>
Cash and cash equivalents at end of year	<u><u>465,658</u></u>	<u><u>119,152</u></u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	338,244	245,104
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in assets and liabilities:		
(Increase)/decrease in income grants receivable	586,801	(732,967)
Increase/(decrease) in deferred revenue	(586,801)	732,967
Increase/(decrease) in accounts payable	<u>-</u>	<u>(183,970)</u>
Net cash provided by operating activities:	<u><u>\$ 338,244</u></u>	<u><u>\$ 61,134</u></u>

See accompanying notes to the financial statements.

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Southern Ohio Port Authority (the Port Authority) is presented to assist in understanding the entity's financial statements. The financial statements and notes are representations of the entity's management and board who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles for governmental agencies including those principles prescribed by the Governmental Accounting Standard Board (GASB), the American Institute of Certified Public Accountants in the Publication entitled Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards and by the Financial Accounting Standards Board (FASB) (when applicable). The above policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The Southern Ohio Port Authority, Scioto County, 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 pursuant to the authority of Section 4582.02 of the Ohio Revised Code. The Port Authority is governed by a nine member Board of Directors. Members of the Board are appointed by the Scioto County Commissioners. The purpose of the Port-Authority is to be involved in the activities that enhance foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within Scioto County.

The Port Authority is statutorily created as a separate and distinct political subdivision of the State. The Authority is governed by a nine member Board of Trustees appointed by the Scioto County Commissioners. Scioto County Commissioners have no authority regarding the day-to-day activities and business affairs of the Port Authority beyond the creation of the Port Authority and the appointment of its Board of Directors. Scioto County maintains its own accounting functions, is a separate reporting entity, and its financial activity is not included within the financial statements of the Port Authority.

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Port Authority Consists of its general operation fund.

Component units are legally separate organizations for which the Port Authority is financially accountable. The Port Authority is financially accountable for an organization if the Port Authority appoints a voting majority of the organization's governing board and (1) the Port Authority is able to significantly influence the programs or services performed or provided by the organizations: or (2) the Port Authority is legally entitled to or can otherwise access the organization's resources: the Port Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits or, or provide financial support to, the organization: or the Port Authority is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent of the Port Authority in the Port Authority approves the budget, the issuance of debt or the levying of taxes. The Port Authority has no component units.

The Port Authority's management believes these financial statement present all activities for which the Port Authority is financial accountable. The Port Authority was formed on September 22, 1983

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting

The financial statement 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 of establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

The Port Authority's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Port Authority uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An Enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

C. Measurement Focus

The enterprise fund is accounted for on a flow of economic resource 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 fund 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 enterprise activity.

D. Fund Accounting

The Port Authority maintains an Enterprise Fund, a proprietary fund type, which is the general operating fund and is used to account for all financial resources of the Port Authority. This fund is used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

E. Budgetary Process

Ohio Revised Code Section 4582.13 requires the Port Authority annually prepare a budget. No further approvals or actions are required under Section 4582 of the Ohio Revised Code.

F. Capital Assets

Capital assets utilized by the Port Authority are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are reported at their fair market values as of the date received. The Port Authority maintains a capitalization threshold of five hundred dollars. Improvements are capitalized, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 1-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. 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, grantors or laws or regulations of other governments. The Port Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Port Authority did not have any restricted net assets for 2006 and 2005.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Port Authority, these revenues are rental income and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Port Authority.

I. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2-Cash

Active deposits are public deposits necessary to meet current demands on the Treasury. Such monies must be maintained either as cash in the 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 Board of Trustees 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 represent interim monies that 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 account including passbook accounts. Interim monies can be deposited or invested in the following securities:

1. Notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of federal government agencies or instrumentalities.

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 2-Cash (Continued)

3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in item (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio)
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Authority by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 2-Cash (Continued)

Deposits:

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. At year-end 2006 and 2005, the carrying amount of the Port Authority's deposits was \$465,657 and \$119,152, respectively. The bank balance of the Port Authority's deposits at December 31, 2006 and 2005 was \$465,657 and \$120,675, respectively. Of the bank balance at year end 2006 and 2005, \$100,000 was covered by federal depository insurance each year and \$365,657 and \$20,675 was covered by collateral held by the pledging bank's trust department but not in the Port Authority's name pursuant to Section 135.181, Ohio Revised Code, in collateral pools securing all public funds on deposit with specific depository institutions.

Although the pledging bank has an investment and securities pool used to collateralize all public deposits, which are held in the financial institution's name, noncompliance with federal requirements could potentially subject the Port Authority to a successful claim by the FDIC. The deposits not covered by federal depository insurance are considered uninsured and uncollateralized under the provisions of Statement No. 3 and subject to custodial credit risk. The Port Authority had no investment in either of the fiscal years.

NOTE 3- Capital Assets

Capital asset activity for the fiscal year ended December 31, 2005 was as follows:

<u>Capital Assets</u>	Balance at 12/31/04	Additions	Deletions	Balance at 12/31/05
Land held for resale	\$3,409,977	\$0	\$0	\$3,409,977
Total	<u>\$3,409,977</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,409,977</u>

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

<u>Capital Assets</u>	Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06
Land held for resale	\$3,409,977	\$0	\$0	\$3,409,977
Total	<u>\$3,409,977</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,409,977</u>

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 4-Note Payable

Changes in note obligations of the Port Authority during the year ended December 31, 2005 consisted of the following:

	Balance at 12/31/04	Additions	Deletions	Balance at 12/31/05	Due Within One Year
Village of New Boston	\$50,000	\$0	\$0	\$50,000	\$0
Arter and Hdden	400,000	0	0	400,000	0
New Boston Industrial Corporation	644,379	0	0	644,379	0
Scioto County	509,000	0	0	509,000	0
Total	\$1,603,379	\$0	\$0	\$1,603,379	\$0

Changes in note obligations of the Port Authority during the year ended December 31, 2006 consisted of the following:

	Balance at 12/31/05	Additions	Deletions	Balance at 12/31/06	Due Within One Year
Village of New Boston	\$50,000	\$0	\$0	\$50,000	\$0
Arter and Hdden	400,000	0	0	400,000	0
New Boston Industrial Corporation	644,379	0	0	644,379	0
Scioto County	509,000	0	0	509,000	0
Total	\$1,603,379	\$0	\$0	\$1,603,379	\$0

Village of New Boston note is unsecured with payment due on demand with 0% interest.

Arter and Hdden note is secured by real estate and payment is due on demand of sale of real estate.

New Boston Industrial Corporation note is secured by real estate and payment is due on demand of sale of real estate with the Authority making monthly interest payment.

Scioto County note is secured by real estate and payment is due on demand of sale of real estate.

NOTE 5-Related Party Transactions

SOPA owes \$509,000 to Scioto County. SOPA is a related organization of Scioto County.

Southern Ohio Port Authority
Notes to the Financial Statements
For the Years Ended December 31, 2006 and 2005

NOTE 6-Concentration of Credit Risk

SOPA's primary assets consist of land, buildings, rail facilities and river dock located in Portsmouth, Ohio. SOPA's primary source of income has been state and federal grants used in the remedial development of Brownfield industrial property that is ultimately sold at fair market value. The purpose of SOPA's sale of industrial property is to promote the creation of industrial related jobs in Scioto County and property sales are typically made at below cost. SOPA has been totally dependent on state and federal funds for its continued existence.

NOTE 7 – Contingencies

SOPA has no know outstanding environmental issues as of the date of this report. SOPA has an agreement with Ohio EPA in which SOPA performs environmental inspections and corrects resulting problems on Brownfield property at the time title is transferred to a prospective buyer in return for the Ohio EPA's covenant not to sue and becoming a part of the deed transferred to the buyer.

NOTE 8 – Subsequent Events

Subsequent to December 31, 2006 SOPA took part in the following transactions:

- Sold the Grace Street Building for \$1,345,258
- Paid mortgage in full to New Boston Industrial Corp. with principal and interest totaling \$756,136
- Paid mortgage in full to Arter and Hadden totaling \$400,000

NOTE 9 – Change in Accounting Principles

For the year ended December 31, 2006, the Port Authority implemented GASB Statement No. 40 *Deposits and Investment Risk Disclosure*, GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, GAS B Statement No. 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement No. 47, *Accounting for Termination Benefits*. GASB Statement No. 40 establishes deposits and investment risk disclosure, BASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement No. 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement No. 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the financial statements, nor did their implementation require a restatement of prior year net assets.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Board of Trustees
Southern Ohio Port Authority
433 Third St.
PO Box 1525
Portsmouth, Ohio 45662

We have audited the business-type activities of the Southern Ohio Port Authority, Scioto County, Ohio, (the Authority) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 1, 2008, in which we indicated the District implemented Governmental Accounting Standards Board Statements No. 40, 42, 46 and 47. 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 Government'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 certain deficiencies in internal control over financial reporting that we consider significant deficiencies.

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 the 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: 2007-001.

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. However, of the significant deficiency described above, number 2007-001 is a material weakness.

Members of the Board

Southern Ohio Port Authority

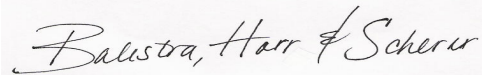
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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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 statements 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 2007-002.

We intend this report solely for the information and use of the Port Authority's management and the Port Authority Board of Trustees. We intend it for no one other than these specified parties.



Balestra, Harr & Scherer, CPAs, Inc.

July 1, 2008

**SOUTHERN OHIO PORT AUTHORITY
SCIOTO COUNTY
DECEMBER 31, 2006 AND 2005**

SCHEDULE OF FINDINGS

FINDING NUMBER 2006-001

Material Weakness:

The Port Authority's financial report did not contain a management discussion and analysis which is supplementary information required by generally accepted accounting principals in the United States and GASB. The notes to the basic financial statements did not adequately present all material disclosures required by generally accepted accounting standards and GASB. Also reclassifications were identified during the course of the audit properly present the Port Authority's financial information within GASB requirements. These errors and omissions were not prevented or detected by the Port Authority's internal controls over financial reporting.

The Port Authority should implement application and monitoring controls over financial reporting to ensure that all financial statement transactions are accurately and completely reported in accordance with the accounting basis required for the Port Authority to follow. Also, the Port Authority should ensure all required components of the unaudited financial report are prepared for filing with the Auditor of State.

Client Response:

We will work with our accountant to change report format.

FINDING NUMBER 2006-002

Non-Compliance

Ohio Revised Code Section 117.38 states in part that a cash-basis entity must file annual reports with the Auditor of State within sixty (60) days of the fiscal year end. Those public offices reporting pursuant to GAAP shall file their reports within one hundred fifty (150) days after the close of the fiscal year.

The Authority did not file their annual report with the Auditor of State's office for either year during the audit period.

The Authority should file its annual report with the Auditor of State of Ohio within one hundred fifty (150) days of the fiscal year end.

Client Response:

We will file the 2005 and 2006 reports immediately. The 2007 report will be compiled and sent in as soon as possible. In the future, the report will be filed annually in accordance with the Ohio Revised Code.



Mary Taylor, CPA
Auditor of State

SOUTHERN OHIO PORT AUTHORITY

SCIOTO 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
SEPTEMBER 25, 2008**