TOLEDO-LUCAS COUNTY PORT AUTHORITY

SINGLE AUDIT REPORT
REPORTING PACKAGE

DECEMBER 31, 1998

CLARK JOHNSON & ROBSON
Certified Public Accountants

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Board of Directors
Toledo-Lucas County Port Authority
Toledo, OH

We have reviewed the Independent Auditor's Report of the Toledo-Lucas County Port Authority, Lucas County, prepared by Clark Johnson & Robson, for the audit period January 1, 1998 to December 31, 1998. 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 Toledo-Lucas County Port Authority is responsible for compliance with these laws and regulations.

JIM PETRO
Auditor of State

February 9, 2000

CLARK JOHNSON & ROBSON
Certified Public Accountants
Toledo, Ohio

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the
Toledo-Lucas County Port Authority

We have audited the accompanying general-purpose financial statements of the Toledo-Lucas County Port Authority as of and for the years ended December 31, 1998 and 1997, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards, 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 audits provide a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Toledo-Lucas County Port Authority as of December 31, 1998 and 1997, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 1999 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 1998 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

As discussed in Note 3 to the financial statements, the Authority changed its method of accounting for deferred compensation assets and liabilities in 1998.

Clark Johnson & Robson

October 7, 1999

Toledo-Lucas County Port Authority

Balance Sheet

	December 31, 1998	December 31, 1997
ASSETS		
Current assets		
Cash	$ 5,300,011	$ 3,602,974
Investments	1,000,000	2,042,297
Restricted investments	2,512,292	1,803,891
Interest receivable	216,002	308,197
Accounts receivable	4,107,874	3,457,962
Current portion of loans receivable	3,606,248	3,434,583
Prepaid expenses and other assets	38,565	33,194
Total current assets	16,780,992	14,683,098
Other assets		
Property, plant and equipment	262,736,883	246,002,414
Loans receivable	23,434,232	16,409,226
Restricted investments	34,599,021	13,299,678
Amount due from lessee	277,020	287,104
Deferred bond issuance cost	8,413,212	8,148,254
Deferred loss on refunding	1,275,564	-
Funds on deposit with deferred compensation board	-	1,353,543
Total other assets	330,735,932	285,500,219
Total assets	$ 347,516,924	$ 300,183,317
LIABILITIES AND FUND EQUITY		
Current liabilities		
Accounts payable	$ 3,556,663	$ 1,631,517
Accrued payroll	478,616	633,040
Accrued interest payable	2,436,801	2,273,644
Current portion of long-term debt	11,901,422	10,520,262
Deferred income	305,398	192,577
Total current liabilities	18,678,900	15,251,040
Long-term liabilities		
Deferred compensation payable	-	1,353,543
Notes payable	1,609,326	1,720,622
Airport Improvement revenue note	2,772,963	3,090,085
Airport Improvement revenue bonds	40,875,000	39,800,000
Brush Wellman revenue bonds and note	18,688,220	19,643,963
World Headquarters revenue bonds and note	81,234,859	86,593,368
Northwest Ohio Development revenue bonds	37,480,000	25,685,000
Flight Safety Improvement revenue bonds	20,000,000	-
Hercules Tire Improvement revenue bonds	8,233,333	-
Borrower deposit reserves	2,594,409	2,197,393
Total long-term liabilities	213,488,110	180,083,974
Fund Equity		
Contributed Capital	113,504,886	100,138,645
Funds reinvested in facilities, property and operations	1,845,028	4,709,658
Total fund equity	115,349,914	104,848,303
Total liabilities and fund equity	$ 347,516,924	$ 300,183,317

The accompanying notes are an integral part of these financial statements.

Toledo-Lucas County Port Authority

Statement of Revenues and Expenses and Changes in Fund Equity

	For the Year Ended December 31, 1998	1997
Operating revenues		
Rental under property leases	$ 18,329,011	$ 15,923,073
Wharfage under property lease	131,406	105,764
Airport landing area	659,873	727,805
Airport terminal area	3,002,766	2,998,528
Burlington fee income	2,998,548	2,660,249
Other rental and fee income	3,129,180	2,884,494
Interest income on loans receivable	2,659,695	2,304,103
Other income	247,705	6,520
Total operating revenues	31,158,184	27,610,536
Operating expenses		
Personal services	3,906,527	3,955,647
Marketing	350,760	463,009
Contractual services	3,434,724	3,117,193
Utilities	495,442	635,956
Repairs and maintenance	1,830,118	1,188,551
Depreciation	9,700,498	10,637,010
Amortization	637,114	458,372
Rental expense	110,027	110,052
Interest expense	2,727,917	2,203,208
Other operating expenses	489,691	350,572
Provision for loan loss reserve	200,000	300,000
Total operating expenses	23,882,818	23,419,570
Operating income	7,275,366	4,190,966
Nonoperating revenues (expenses/expenditures)		
Proceeds of property tax levy	2,273,727	2,219,376
Interest income from investments	1,096,765	1,415,361
Passenger facility charges	876,324	496,726
Other income	-	3,008
Interest expense	(12,849,357)	(12,292,006)
Borrower disbursements	(387,455)	(523,843)
Litigation settlement	(1,150,000)	-
Total nonoperating revenues (expenses)	(10,139,996)	(8,681,378)
Net loss	(2,864,630)	(4,490,412)
Fund equity at beginning of year	104,848,303	105,625,160
Contributed capital from grants	13,366,241	3,713,555
Fund equity at end of year	$ 115,349,914	$ 104,848,303

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	December 31, 1998	
	1998	1997
Cash flows from operating activities:		
Operating income	$ 7,275,366	$ 4,190,966
Adjustments to reconcile operating income to cash provided (used) by operating activities:		
Depreciation expense and amortization	10,337,612	11,095,382
Provision for loan loss reserve	200,000	300,000
Changes in assets and liabilities:		
Issuance of loans receivable	(11,280,000)	-
Accounts receivable and due from lessee	(639,828)	508,327
Interest receivable	(50,782)	33,565
Prepaid expenses and other assets	1,348,172	(220,028)
Reductions in loans receivable	3,883,329	3,259,920
Accounts payable	1,925,146	(1,165,673)
Accrued payroll	(154,424)	(15,918)
Accrued interest	67,958	(44,857)
Deferred income	112,821	(36,291)
Deferred compensation	(1,353,543)	222,886
Total adjustments	4,396,461	13,937,313
Net cash provided by operating activities	11,671,827	18,128,279
Cash flows from noncapital financing activities:		
Principal reductions on Northwest Ohio Development Revenue Bonds	(3,690,000)	(3,030,000)
Proceeds of property tax levy	2,273,727	2,219,376
Net cash used by noncapital financing activities	(1,416,273)	(810,624)
Cash flows from capital and related financing activities:		
Capital grants received	13,366,241	3,713,555
Passenger facility charges received	876,324	496,726
Acquisition and construction of capital assets	(26,434,967)	(20,494,792)
Interest paid on capital asset debt	(12,754,158)	(12,371,762)
Litigation settlement	(1,150,000)	
Principal payments on long-term debt	(6,733,177)	(5,085,608)
Issuance of new bonds	47,550,000	2,175,000
Issuance of Ohio Department of Development note	8,350,000	5,000,000
Defeasance of NW Ohio and Airport Improvement bonds	(9,735,000)	-
Loss on defeasance	(1,275,564)	-
Payment of bond issuance costs	(902,072)	(36,091)
Net cash provided (used) by capital and related financing activities	11,157,627	(26,602,972)
Cash flows from investing activities:		
Interest on investments	1,095,066	1,448,926
Borrower disbursements	154,082	(873,987)
Purchase of securities	(39,186,845)	(6,612,206)
Proceeds from sale of securities	18,221,553	16,928,505
Net cash provided (used) by investing activities	(19,716,144)	10,891,238
Net Increase in Cash and Cash Equivalents	1,697,037	1,605,921
Cash and Cash Equivalents at Beginning of Year	3,602,974	1,997,053
Cash and Cash Equivalents at End of Year	$ 5,300,011	$ 3,602,974
Supplemental disclosure of interest paid	$ 15,414,117	$ 14,619,827

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Toledo-Lucas County Port Authority is a governmental subdivision created following enactment by the Ohio Legislature of the Ohio Port Authority Act. The Act permits the Authority to administer seaport, airport, and economic development business within the State of Ohio. The Authority is governed by a board of thirteen directors, six of whom are appointed by the City of Toledo, six by Lucas County, and one by joint action of the City and the County.

The Authority is composed of four divisions, the Seaport Division, the Airport Division, the Economic Development Division and the Surface Transportation Division. The Authority functions as a site purchasing and development agency, leasing developed areas at the Port of Toledo, Toledo Express Airport, Metcalf Airport and Central Union Plaza to private firms for operations. In 1973 the Authority assumed the operation and management of Toledo's airports from the City of Toledo under a lease which expires in the year 2023. The Economic Development Division was formed during 1985 to oversee the general economic development of the City of Toledo, Lucas County, and the surrounding area. To further that goal, in 1993, the Division formed a working association with the Toledo Area Chamber of Commerce which is known as the Toledo Regional Growth Partnership. The Division's financial information is presented in Note 2. The following summary of significant accounting policies of the Authority is presented to assist the reader in evaluating the financial statements.

Basis of Accounting

The Authority operates as a self-supporting governmental enterprise and uses accounting policies applicable to governmental enterprise funds. The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with generally accepted accounting principles in all material respects. The Authority applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989 unless those pronouncements conflict with Governmental Accounting Standards Board (GASB) pronouncements, in which case GASB prevails.

Cash and Investments

Investments are made in accordance with statutes of the State of Ohio and policies of the board of directors. Restricted cash and investments represent balances maintained in the Northwest Ohio Development and Airport Improvement Revenue funds which are governed by the respective trust agreements. The agreements restrict activity to certain highly rated investments such as U. S. Government securities, certificates of deposit and money market funds. Accordingly, these balances have been separately identified in the accompanying financial statements.

In accordance with GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investment Pools"*, the Authority reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit, repurchase agreements) which are reported at cost, which approximates fair value. All investment income, including changes in the fair value of investments, are recognized as revenue in the operating statements. Fair value is determined by quoted market prices.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of the statement of cash flows, the Authority considers all bank deposits including investments in the State Treasury Asset Reserve of Ohio (STAR Ohio) and overnight investment of excess deposits in repurchase agreements to be cash equivalents.

The Authority invested funds in the STAR Ohio during 1998. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on December 31, 1998.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and amortization. Depreciation expense is provided using the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the lesser of the estimated useful life of the asset or the term of the related lease. Maintenance and repairs are charged to expense and improvements are capitalized. Interest on funds used during construction, less interest earned on related investments if the asset is financed with the proceeds from restricted obligations, is capitalized as part of the cost of the asset. The Authority capitalized $98,587 and $991,407 of net interest expense in 1998 and 1997, respectively.

Deferred Bond Issue Costs and Bond Discount

Bond issue costs and bond discounts are being amortized over the life of the bonds using the straight-line method which approximates the interest method.

Contributed Capital

Federal, state and local government improvement grants and contributions received from private firms in connection with financing projects recorded as contributed capital.

Property Tax Levy

A .4 mill real estate tax replacement levy passed by Lucas County voters in 1994 provides financial support for the various activities of the Authority. The Authority elected to collect the full .4 mill in 1997 and 1998.

Based on materiality, property taxes are recognized as revenues when received from the Lucas County Auditor.

NOTE 2 - REGIONAL GROWTH PARTNERSHIP

Effective May 1, 1996 the Authority and the Chamber of Commerce relinquished their interests in the Toledo Regional Growth Partnership, which simultaneously filed as a non-profit corporation in the State of Ohio. The Authority entered into a contract with the entity, which is now known as the Regional Growth Partnership, Inc. to perform certain economic development services for the Authority through the end of 1999. The contract provides for a fee of $1,450,000 per year. Either party may terminate the agreement as of the end of a calendar year by notifying the other party in writing on or before September 1 of that year.

The Authority appoints or approves the appointment of a majority of the officers of the Partnership and provides a significant portion of the Partnership's revenue. Unlike the Authority which uses enterprise fund accounting, the Partnership accounts for its activities using government funds and account groups in its financial statements. Audited Partnership financial statements for the year ended December 31, 1998, which are not considered material to the financial statements of the Authority, reflected total (memorandum) assets of $569,853, fund equity of $504,080, revenues of $1,933,513, and excess of revenues over expenditures of $59,680. The audited financial statements of the Partnership are available at the Regional Growth Partnership, Inc., 300 Madison Avenue, Suite 300, Toledo, Ohio 43604.

NOTE 3 - CHANGES IN ACCOUNTING PRINCIPLE

A. Implementation of GASB Statement No. 31

During fiscal year 1998, the Authority implemented GASB Statement No. 31, *"Accounting and Financial Reporting for Certain Investments and for External Investments Pools."* The statement established accounting and reporting guidelines for government investments and investment pools. Certain investment which were reported at cost in previous years are now reported at fair value. The implementation of GASB Statement No. 31 required no change in the Authority's financial statements from prior years.

B. Implementation of GASB Statement No. 32

The Internal Revenue Code previously required that Section 457 deferred compensation plan assets remain the property of the employer government until available to the employee or beneficiary. Under these regulations, plan assets were recorded in the Authority's financial statements.

Recent changes to the Internal Revenue Code require Section 457 plan assets to be held in trust for the exclusive benefit of the employees. These plans must establish trust agreements prior to January 1, 1999. During 1998, the Ohio Public Employees Deferred Compensation Program (the "Plan") implemented a Trust Agreement to hold all Plan assets for the employer, whenever contributed, for the exclusive benefit of participants and their beneficiaries. Accordingly, the Authority has implemented GASB Statement No. 32, *"Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans"* which requires that such assets held in trust, not be reflected on the government's financial statements. Inasmuch as the Authority no longer has an accounting fiduciary responsibility for the deferred compensation assets, the asset and related liability are no longer reported in the Authority's financial statements.

NOTE 4 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, substantially all of which is leased to third parties, consists of the following:

	December 31, 1998	December 31, 1997
Land and Improvements	$147,236,589	$134,345,868
Property and Equipment	37,015,376	36,887,004
Buildings and Leasehold Improvements	22,799,612	22,768,841
Furniture and Fixtures	430,975	430,975
Brush Wellman Inc. Facility	19,829,383	20,129,383
Owens Corning Facility	95,978,456	95,978,456
BAX Hub	33,974,351	33,974,351
FlightSafety International Facility Construction in Progress	8,924,151	-
Hercules Tire Facility Construction in Progress	3,578,679	-
Other Construction in Progress	1,182,273	-
	370,949,845	344,514,878
Less: Accumulated Depreciation	(108,212,962)	(98,512,464)
	$262,736,883	$246,002,414

Depreciation has been determined using the straight-line method over the estimated useful lives of the property and equipment ranging between 5 and 40 years. During 1998 and 1997, approximately $13,000,000 and $2,900,000, respectively, of federal, state and local grant funding was utilized to purchase fixed assets.

NOTE 5 - NORTHWEST OHIO DEVELOPMENT REVENUE BONDS

The Northwest Ohio Development Revenue Bonds are issued pursuant to authorization of the Ohio Revised Code and under a Trust Agreement dated August 15, 1988 between the Authority and the trustee. The program is designed to advance economic development of the Toledo-Lucas County and surrounding area by providing long-term, fixed interest rate financing. Each bond issue must be authorized by a separate action of the board of directors.

Debt service requirements on each bond issue are secured by a pledge of amounts to be received under lease or loan agreements with borrowers who utilize the financed facilities. In addition, all borrowers are required to deposit into the Primary Reserve an amount with the trustee as additional security for the related bonds. Such amounts may be used in the event the borrower is unable to make the required payments under the lease or loan agreement or may be applied to the final year's debt service payments. The trustee holds these funds during the term the bonds are outstanding, with investment income earned on the reserve amounts returned to the borrowers annually. Investment income earned is included in nonoperating interest income while the remittances to the borrowers are included in nonoperating expenditures as "borrower disbursements" in the Statement of Revenues and Expenses and Changes in Fund Equity.

NOTE 5 - NORTHWEST OHIO DEVELOPMENT REVENUE BONDS (Continued)

Upon the issuance of the first series of bonds (Series 1988A), the Authority deposited $3,000,000 in the Program Reserve Account with the trustee. The State of Ohio awarded the Authority a grant of $1,500,000, received in 1991 and 1992, which was also deposited in the Program Reserve Account. In addition, the Authority has obtained a non-recourse bank letter of credit in the amount of $4,500,000 from a bank to provide additional security for bond investors.

The bond issues are not general obligations of and are not secured by the full faith and credit or taxing power of the Authority.

In December 1994, the Authority defeased $3,355,000 of Taxable Development Revenue Bonds (Series 1988A) and sold the related facility to the sub lessee. Funds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the defeased bonds. The defeased bonds, which have an outstanding balance of $3,035,000 at December 31, 1998 are not included in the Authority's outstanding debt.

In April 1995, the Authority defeased $1,435,000 of Tax Exempt Development Revenue Bonds (Series 1989A). Funds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the defeased bonds. The defeased bonds, which have an outstanding balance of $935,000 at December 31, 1998 are not included in the Authority's outstanding debt.

In May 1996 and July 1996, the Authority defeased $1,115,000 and $1,860,000, respectively, of Tax Exempt Development Revenue Bonds (Series 1989E and 1990D). Funds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the defeased bonds. The defeased bonds, which have outstanding balances of $730,000 and $1,370,000, respectively, at December 31, 1998 are not included in the Authority's outstanding debt.

In May 1998, The Authority advance refunded $2,965,000 of Tax-Exempt Development Revenue Bonds (Series 1990A Airport Bonds issued through the Northwest Bond Fund) (See Note 6 for further details)

NOTE 5 - NORTHWEST OHIO DEVELOPMENT REVENUE BONDS (Continued)

A summary of the Northwest Ohio Development Revenue Bonds issued and outstanding at December 31, 1998, follows (see Note 15 for mandatory sinking fund redemptions):

Series	Interest Rate	Final Maturity Date	Bonds Outstanding
Taxable			
1989B	10.42%	05/15/2001	$1,690,000
1990B	10.28%	11/15/2011	1,165,000
1990C	10.28%	05/15/2001	575,000
1990E	10.44%	11/15/2011	1,725,000
1992B	7.76%	11/15/2000	1,070,000
1994A	9.43%	11/15/2004	3,605,000
1995A	10.06%	11/15/2015	4,845,000
1995B	7.24%	11/15/2010	2,315,000
1998A	7.20%	05/15/2008	2,975,000
1998B	7.22%	05/15/2008	2,500,000
1998C	7.30%	11/15/2018	2,665,000
1998D	7.00%	11/15/2018	5,535,000
1998E	7.63%	11/15/2018	5,000,000
Tax Exempt			
1988B	9.00%	11/15/2008	980,000
1989C	8.25-8.4%	11/15/2009	1,470,000
1989D	8.50%	11/15/2000	1,550,000
1989F	8.38%	11/15/2004	950,000
1992A	7.75%	05/15/2007	825,000
			$41,440,000

At December 31, 1998, future minimum principal and interest payments to be received under the loan agreements securing the remaining bond issues are as follows:

Years	
1999	$7,368,183
2000	7,064,762
2001	5,442,012
2002	5,267,193
2003	5,179,814
Thereafter	38,318,987
Totals	$68,640,951

The loan agreements are secured by each project's property and/or equipment. In addition, there are personal guarantees from principals of the borrowing companies and/or letters of credit. At December 31, 1998, a loan loss reserve of $1,500,000 has been provided for potentially uncollectible loan amounts.

NOTE 6 - AIRPORT IMPROVEMENT REVENUE BONDS AND NOTE

In 1989, the Authority issued $30,870,000 of Airport Improvement Revenue Bonds. The proceeds of the bond issue, along with funds made available by Lucas County and grants from the City of Toledo and the State of Ohio, were used to finance the construction and equipping of an air cargo distribution facility currently leased to Burlington Air Express Inc. (now known as BAX Global Inc.). In conjunction with the issuance of the Airport Improvement Revenue Bonds, a trust agreement dated April 1, 1989 was executed by the Authority and the trustee. The tax-exempt bonds paid interest of 9.875% per annum and were scheduled to mature in installments which began in 1992 and continued through April 1, 2019.

In March 1994 the Authority issued $36,120,000 of Airport Refunding and Improvement Revenue Bonds, Series 1994-1, in part to refinance the 1989 issue of Airport Improvement Revenue Bonds and in part to finance an additional project and improvements at Toledo Express Airport, substantially all of which are being used by and leased to BAX. The bonds, which are tax exempt, pay interest at various rates ranging between 7% and 7.5% and mature in installments which began in 1995 and continue through 2019. The bonds may be redeemed prior to maturity, at specified premiums, at the option of the Authority.

Under the amended Trust Agreement, $3,546,984 of the bond proceeds were deposited with the trustee in a reserve account to be applied to the last year's debt service payments.

The lease agreement between the Authority and BAX was amended in March 1994 to reflect the issuance of the new debt. As amended, the initial term of the lease expires October 31, 2013. Lease payments will be sufficient to satisfy the debt service requirements on the bonds during the initial lease term. Throughout the initial lease term, BAX has various options including extending the lease or purchasing the facility. In the event BAX terminates the lease at the end of the initial lease term, the Authority has agreed to pay the remaining bond financing payments from revenues other than those derived from property tax levies. The lessee is obligated under the terms of the lease to bear all costs incurred in the use, operation and maintenance of the leased premises. In April 1990 the Authority issued a $5,000,000 Airport Improvement Revenue Note to the Director of Development of the State of Ohio to finance a portion of capital improvement costs at the Airport. The note pays interest at 5.0% per annum and is to be repaid in 60 quarterly installment payments which commenced on April 1, 1992, and run through January 1, 2007.

In May 1998, the Authority defeased $6,815,000 of Airport Improvement Revenue Bonds and $2,965,000 of Tax-Exempt Development Revenue Bonds (Series 1990A) through the issuance of $8,770,000 of Airport Improvement Revenue Bonds and $2,500,000 of Taxable Development Revenue Bonds (Series 1998B issued through the Northwest Bond Fund). The net proceeds of these bonds have been invested in obligations guaranteed as to both principal and interest by the United States and placed in irrevocable escrow accounts which, including interest earned, will be used to pay the principal and interest on the

NOTE 6 - AIRPORT IMPROVEMENT REVENUE BONDS AND NOTE (Continued)

refunded bonds. The refunded bonds, which have an outstanding balance of $6,610,000 and $2,920,000 at December 31, 1998 are not included in the Authority's outstanding debt since the Authority has in substance satisfied its obligations through the the advance refunding. The Authority reduced its aggregate debt service payments over the life of the refunded bonds by $1,807,243 and obtained an economic gain (the difference between the present values of the old and new debt service payments) of $954,299.

See Note 15 for mandatory sinking fund redemption and scheduled principal payments of the Airport Improvement Revenue Bonds and Note, respectively.

Pursuant to the BAX lease, the Authority is obligated to fund an estimated $7,500,000 of general improvements to the Toledo Express Airport if requested by BAX. The amount is expected to be financed from Authority revenue bonds and federal, state and local grants.

NOTE 7 - OWENS CORNING PROJECT

In June 1994 the Authority announced its plan to construct facilities to serve as the new world headquarters for Owens Corning (OC). The Authority constructed the facilities on land leased to it by the City of Toledo and an affiliate of the local electric utility company. The project is being financed primarily by two bond issues and a loan (revenue note) from the State of Ohio.

In March 1995 the Authority issued $85,340,000 of taxable World Headquarters Revenue Bonds in connection with this project. The bonds, which pay interest at 9.9%, are subject to mandatory sinking fund redemptions each year beginning in 1997 and mature in 2015. The Authority also issued $5,000,000 of Northwest Ohio Development Revenue Bonds Series 1995A (Note 5) which pay interest at 10.06%, require semi-annual redemption payments and mature in May 2015. The State of Ohio Department of Development, lent the Authority $10,000,000 for the project under a revenue note. The note bears interest at 2% per year. Required are level monthly payments in an amount adequate to reduce the note principal by $5,000,000 by November 15, 2014. A balloon payment of $5,000,000 is due November 15, 2014.

The City of Toledo committed up to $11,250,000 for land acquisition, site preparation and improvements to the area surrounding the project. In addition, the Ohio Department of Development provided a $1,000,000 grant to the Authority for the project.

The scheduled debt payment requirements for the project are as follows:

	Project Financing		
Years	Principal	Interest	Total
1999	$5,448,509	$8,205,937	$13,654,446
2000	5,983,705	7,670,993	13,654,698
2001	6,568,019	7,082,409	13,650,428
2002	7,214,451	6,434,741	13,649,192
2003	7,930,007	5,721,686	13,651,693
Thereafter	58,293,679	27,724,461	86,018,140
Totals	$91,438,370	$62,840,227	$154,278,597

NOTE 7 - OWENS CORNING PROJECT (Continued)

The Authority is leasing the facilities to OC under a long-term lease. The lease requires monthly payments through May 2015. The payments are generally equal to the debt service requirements on the three financing vehicles described above, plus a monthly fee of $11,250 to the Authority. OC is also responsible for taxes, insurance and maintenance of the project.

The future minimum lease payments to be received under the OC arrangement are as follows:

Years	Minimum Lease Receivable
1999	$13,819,220
2000	13,817,852
2001	13,813,609
2002	13,812,294
2003	13,811,347
Thereafter	81,229,413
Totals	$150,303,735

The lease agreement provides OC with three options to extend the lease, each for a period of five years. OC also has an option to purchase the building and right of first refusal on the sale to a third party. Unless the building is sold, the Authority will transfer its ownership interest to the City in 2030.

A total of $135,000 in fees related to the OC project was recognized as income by the Authority in 1998 and 1997.

NOTE 8 - BRUSH WELLMAN INC. PROJECT

In 1996 the board authorized the Authority's participation in a $110 million expansion of Brush Wellman's manufacturing facilities in Elmore, Ohio. The construction of the expansion was financed through the issuance of $15.28 million of revenue bonds by the Authority and a $5 million loan (revenue note) to the Authority by the State of Ohio Department of Development. The balance of the project, consisting primarily of equipment purchases, was financed by Brush Wellman. The Authority issued $13.1 million of the bonds in 1996 and an additional $2.175 million in 1997. The State of Ohio revenue note proceeds were received in 1997.

Brush Wellman has granted the Authority a 30 year lease through 2026 with an option to extend for an additional 30 years for the land upon which the facility was built. The Authority owns the facility and leases it to Brush Wellman under an agreement that runs through 2011 with options through 2026. Brush Wellman has the option to purchase the facility for $100 plus the remaining outstanding debt or fair market value, whichever is greater.

NOTE 8 - BRUSH WELLMAN INC. PROJECT (Continued)

The scheduled debt payments on the bonds and the loan are as follows:

	Project Financing		
Years	Principal	Interest	Total
1999	$956,176	$1,289,679	$2,245,855
2000	1,021,429	1,223,136	2,244,565
2001	1,086,806	1,151,979	2,238,785
2002	1,140,055	1,118,936	2,258,991
2003	1,200,246	1,068,999	2,269,245
Thereafter	14,239,251	4,397,033	18,636,284
Totals	$19,643,963	$10,249,762	$29,893,725

Lease payments to be received from Brush Wellman are generally equal to the debt service requirements plus fees to the Authority and trustee. Brush Wellman is responsible for taxes, insurance and maintenance expenses. The future minimum lease payments to be received under the agreement are as follows:

Years	Minimum Lease Receivable
1999	$2,285,782
2000	2,277,228
2001	2,269,007
2002	2,298,857
2003	2,309,842
Thereafter	17,075,792
Totals	$28,516,508

In 1998 and 1997 the Authority received $37,941 and $40,993, respectively, in fees relating to the project.

NOTE 9 - CENTRAL UNION PLAZA PROJECT

In 1996 the Authority completed the Union Plaza passenger railroad facility. The Port purchased the facility in 1995 from Conrail with the intention of renovating and leasing the building. Approximately $6,100,000 of the $7,300,000 cost of the project was funded by federal, state and local grants with the balance funded by the Authority, including a $400,000 "Section 166" loan from the State. Rental income received in 1998 and 1997 was $387,532 and $424,750, respectively.

NOTE 10 – PROJECTS IN PROGRESS

Major projects in progress at December 31, 1998 include the FlightSafety International, Inc. (Flight Safety) and Hercules Tire & Rubber Co. (Hercules) projects.

Under terms of the operating agreement between the Authority and FlightSafety, the Authority acquired an existing building and assets on airport property from FlightSafety, is expanding the building and is acquiring flight simulators which will be operated by FlightSafety. To finance the project, in February 1998, the Authority issued $20 million of tax exempt Airport Development Revenue Bonds. The bonds, which mature in 20 years bear interest at a variable rate, adjusted periodically by the Remarketing Agent. Interest is payable quarterly while principal is due in a single payment in 2018. The bonds are secured by the project's assets as well as a guaranty by FlightSafety's parent, Berkshire Hathaway Inc. As of December 31, 1998, approximately $8.9 million had been expended on the project which has been capitalized on the Authority's books in property, plant and equipment. The Authority received $50,000 in fees related to the project in 1998.

During 1998, the Authority issued $5 million in bonds for the Hercules project under the Northwest Ohio Bond Fund. The bonds bear interest at 7.625% and mature in 2018. In a separate issue the State of Ohio issued $8,350,000 in bonds which bear interest at 7.25% and also mature in 2018. The project includes the construction of a distribution facility in Findlay, Ohio which will be owned by the Authority and leased to Hercules under an agreement with an initial lease term through 2008. At the end of the lease term Hercules will have the options of purchasing the facility for $10 million, selling the facility and applying the proceeds to the remaining debt making up any deficiency, or returning the facility to the Authority with a residual guarantee payment of $7.4 million.

The scheduled debt payments for the Hercules Tire project follow:

Years	Principal	Interest	Total
1999	$150,000	$948,196	$1,098,196
2000	330,000	965,716	1,295,716
2001	355,000	940,543	1,295,543
2002	385,000	913,399	1,298,399
2003	415,000	884,041	1,299,041
Thereafter	11,715,000	7,762,271	19,477,271
Totals	$13,350,000	$12,414,166	$25,764,166

NOTE 10 – PROJECTS IN PROGRESS (Continued)

The guaranteed future minimum lease payments to be received under the agreement are as follows:

Years	Minimum Lease Receivable
1999	$1,202,737
2000	1,346,616
2001	1,345,328
2002	1,346,982
2003	1,346,324
Thereafter	13,330,948
Totals	$19,918,935

At December 31, 1998 approximately $3.6 million had been expended on the project. The Authority received $90,000 in fees relating to the project in 1998.

NOTE 11 - CASH, INVESTMENTS AND REPURCHASE AGREEMENTS

Bank Deposits

At December 31, 1998, the carrying amount of the Authority's deposits was $10,006,030 and the bank balance was $9,536,858. Of the bank balance, $300,000 was covered by federal depository insurance and $1,148,925 was uninsured but collateralized by securities held in the Authority's name and $8,087,933 was uninsured but collateralized by securities held in the pledging bank's trust department.

At December 31, 1997, the carrying amount of the Authority's deposits was $3,961,754 (including nonnegotiable certificates of deposit of $662,816) and the bank balance was $3,920,700. Of the bank balance, $595,000 was covered by federal depository insurance and $3,057,884 was uninsured but collateralized by securities held in the Authority's name and $267,816 was uninsured but collateralized by securities held in the pledging bank's trust department.

Investments

The Authority's investments are categorized to give an indication of the level of risk assumed by the Authority at December 31, 1998. Category 1 includes investments that are insured or registered, or securities held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which securities are held by a trust department in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by a trust department or agent but not in the Authority's name.

NOTE 11 - CASH, INVESTMENTS AND REPURCHASE AGREEMENTS (Continued)

	1998			1997
	Category 2	Category 3	Fair Value	Fair Value
Categorized Investments				
U.S. Treasury Notes/Bills	$2,539,568	-	$2,539,568	$4,490,028
U.S. Treasury Bonds	3,302,366	-	3,302,366	113,794
Federal National Mortgage Association	689,399	-	689,399	-
Federal Home Loan Mortgage	2,065,947	-	2,065,947	-
Repurchase Agreements	-	1,282,001	1,282,001	1,888,162
Corporate and Other Notes	-	-	-	4,733,125
Guaranteed Investment Contracts	4,047,223	-	4,047,223	4,046,984
Total Categorized Investments	12,644,503	1,282,001	13,926,504	15,272,093
Noncategorized Investments				
Mutual Funds	N/A	N/A	15,627,004	3,099,119
STAR Ohio	N/A	N/A	3,851,086	304,036
Total Noncategorized Investments	-	-	19,478,090	3,403,155
Total Investments	$12,644,503	$1,282,001	$33,404,594	$18,675,248

Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined balance sheet and the classifications per this GASB Statement No. 3 disclosure is as follows:

	Cash and Cash Equivalents	Investments
Per Combined Balance Sheet	$5,300,011	$38,111,313
Restricted Money Market Funds	9,839,806	(9,839,806)
Investments:		
Repurchase Agreement	(1,282,001)	1,282,001
STAR Ohio	(3,851,086)	3,851,086
Per GASB Statement No. 3	$10,006,730	$33,404,594

NOTE 12 - RETIREMENT PLAN

The following information was provided by the Public Employees Retirement System of Ohio (PERS) of Ohio to assist the Authority in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the Authority participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1998 employer rate for local government employer units was 13.55% of covered payroll, 9.35% to fund the pension benefit obligation and 4.2% to fund health care (See Note 13). The contribution requirements of plan members and the Authority are established and may be amended by the Public Employees Retirement Board. The Authority's contributions to the PERS of Ohio for the years ending December 31, 1998, 1997 and 1996 were $409,203, $440,229, and $412,374, respectively, which were equal to required contributions for each year.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefit obligation described in Note 11, the PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions and requires employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the employer contribution used to fund health care for the years ending December 31, 1998, 1997 and 1996 was $126,838, $166,020, and $155,515, respectively.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1998 were $440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were $9,447,325,318. The number of benefit recipients eligible for OPEB a December 31, 1998 was 115,579.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

NOTE 14 - OPERATING LEASES

The Authority has entered into a number of noncancelable operating lease agreements with various companies to lease certain of its facilities for periods from five to forty years. In addition, the Authority has entered into noncancelable operating lease agreements whose proceeds are pledged for the debt service of certain bonds. The minimum future rentals to be received under the lease agreements, most of which have been pledged for the debt service of related bonds, are as follows (also see Notes 7, 8 and 10):

	Operating Leases			
Years	BAX Rentals and Debt Service	Central Union Plaza	Seaport Leases	Total
1999	$4,055,886	$394,850	$784,827	$5,235,563
2000	4,048,475	394,850	784,827	5,228,152
2001	3,855,167	394,850	784,827	5,034,844
2002	3,755,856	394,850	784,827	4,935,533
2003	3,747,605	394,850	784,827	4,927,282
Thereafter	37,037,548	2,652,050	12,994,645	52,684,243
Totals	$56,500,537	$4,626,300	$16,918,780	$78,045,617

Under the BAX lease agreement, scheduled to expire in 2013, BAX was required to make monthly payments for the "basic" rent on the air cargo distribution facility in scheduled amounts calculated to be sufficient to meet the debt service requirements of the 1989 Airport Improvement Revenue Bonds described in Note 6. As described in Note 6 the debt was refinanced in March 1994 and the basic rent was recalculated in an amendment to the lease agreement. Such rental income amounted to $3,297,338 in 1998 and $3,219,703 in 1997. Future scheduled payments range between $3,305,404 in 1999 and $2,996,871 in 2011.

In addition to the basic rent, the agreement also provides for monthly landing fees and fixed payments for land rental, customs and ramp fees. Fixed payments range from $752,623 received in 1998 to $538,968 scheduled for 2013. Landing fees which are calculated based on aircraft weight amounted to $1,598,276 and $1,398,640 in 1998 and 1997, respectfully. The Authority is entitled to increase landing fees annually commensurate with the increase in airport operating costs, with a maximum increase of 5% per year. BAX is also being charged fuel royalty fees based on gallons used. Total rentals and fees (other than basic rent) from BAX recognized in 1998 and 1997 amounted to $2,998,548 and $2,660,249, respectively.

Additionally, the Authority has entered into a number of noncancelable operating leases with companies that provide services at the Airport. The most significant of these agreements are with the airlines and the parking lot operator.

The rent received from the airlines totaled $889,657 and $958,599 in 1998 and 1997, respectively. Under the agreement covering the operation of the parking lot, which expires in 2001, rentals are based on percentages of gross parking lot receipts. During 1998 and 1997 rentals received totaled $1,234,992 and $1,285,660 respectively.

NOTE 15 - LONG-TERM DEBT

Presented below is a summary of principal payment requirements to maturity by years.

	1999	2000	2001	2002
Notes Payable				
OWDA Notes	$67,096	$72,117	$77,512	$83,310
Central Union Plaza Note	36,203	37,678	39,213	40,810
Northwest Ohio Developemnt				
Revenue Bonds	3,960,000	4,055,000	2,740,000	2,780,000
Owens Corning World Headquarters				
Revenue Bonds	5,130,000	5,650,000	6,224,000	6,855,000
ODOD Note	228,510	233,704	239,018	244,452
Airport Improvement				
Revenue Bonds	870,000	925,000	985,000	770,000
1998-1 Bonds	215,000	230,000	240,000	250,000
Revenue Notes	322,203	338,617	355,868	373,998
Brush Wellman				
Revenue Bonds	955,743	1,020,990	1,086,354	1,141,259
Hercules				
Ohio Enterprise Bonds	116,667	211,667	226,667	246,666
FlightSafety				
Revenue Bonds	-	-	-	-
Total	$11,901,422	$12,774,773	$12,213,632	$12,785,495

	2003	Thereafter	Total
Notes Payable			
OWDA Notes	$89,542	$996,699	$1,386,276
Central Union Plaza Note	42,473	129,972	326,349
Northwest Ohio Developemnt			
Revenue Bonds	2,920,000	24,985,000	41,440,000
Owens Corning World Headquarters			
Revenue Bonds	7,550,000	45,698,000	77,107,000
ODOD Note	250,008	8,290,677	9,486,369
Airport Improvement			
Revenue Bonds	820,000	28,820,000	33,190,000
1998-1 Bonds	460,000	7,375,000	8,770,000
Revenue Notes	393,051	1,311,429	3,095,166
Brush Wellman			
Revenue Bonds	1,199,418	14,240,199	19,643,963
Hercules Tire			
Ohio Enterprise Bonds	263,333	7,285,000	8,350,000
FlightSafety			
Revenue Debt	-	20,000,000	20,000,000
Total	$13,987,825	$159,131,976	$222,795,123

NOTE 16 - CONDUIT DEBT

From time to time the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 1998, there were eleven series of Industrial Revenue Bonds outstanding. The aggregate principal amount payable for the two series issued after July 1, 1995 was $5,100,000 of which $5,060,000 remained outstanding at December 31, 1998. The aggregate principal amount payable for the nine series issued prior to July 1, 1995, could not be determined; however, their original issue amounts totaled $110,500,000.

NOTE 17 - RISK MANAGEMENT

The Authority maintains commercial insurance coverage against most normal hazards and there has been no significant reduction in coverage from the prior year. Settlement claims have not exceeded coverage for any of the last three fiscal years, except as discussed in Note 18.

The Authority participates in the State of Ohio's Workers' Compensation program under which premiums paid are based on a rate per $100 of payroll. The rate is determined based on accident history.

Employee health benefits are covered under a self insurance program with a stop loss policy which limits losses to $17,500 per employee up to a combined annual loss of $360,000.

NOTE 18 – SUBSEQUENT EVENT

The Authority was a defendant in various lawsuits brought by homeowners alleging the addition of the BAX Global Air operations at Toledo Express Airport created a nuisance. In September 1999, a settlement was reached under which the litigation was terminated and the plaintiffs agreed to accept $4.6 million in exchange for a release and a dismissal of their claims. The Authority's insurance carriers have agreed to pay $3.45 million of the settlement amount and the Authority the balance of $1.15 million. The charge is included in the Airport division's 1998 statement of revenues and expenses.

NOTE 19 - YEAR 2000 ISSUE

The year 2000 issue is the result of shortcomings in many electronic data processing systems and other equipment that may adversely affect the government's operations as early as fiscal 1999.

The Authority has completed an inventory of computer systems and other equipment necessary to conducting Authority operations and has completed remediation, testing and validation as follows:

Accounting and Financial Reporting Systems, Payroll and Related Benefits, and Billing and Collection Systems. The Authority's outside vendors have represented that these systems are year 2000 ready.

Telecommunications Systems. The Authority's outside vendors have represented that these systems are year 2000 ready.

Office Buildings/Administration System. The Authority's outside vendors are in the process of testing for year 2000 readiness. This includes heating, air conditioning and security systems.

Airport System. The airport includes the following systems for which vendors have represented that the systems are year 2000 ready or the Authority has completed testing and validation: access control, lighting control, telecommunications, fuel services, and environmental systems. The following systems are in the process of remediation: automated flight announcement system, car parking, automated doors and escalators.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

TOLEDO-LUCAS COUNTY PORT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 1998

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation			
Direct program			
Airport Improvement Program	20.106		$ 10,981,970
Total U.S. Department of Transportation			10,981,970
U.S. Department of Defense National Guard Bureau			
Pass-through programs from			
Ohio Air National Guard:			
Military Construction	12.400	N/A	1,117,222
Total U.S. Department of Defense National Guard Bureau			1,117,222
Total expenditures of federal awards			$ 12,099,192

Note - Basis of Presentation

The above schedule of expenditures of federal awards includes the federal grant activity of the Toledo-Lucas County Port Authority and is presented on the accrual basis of accounting. The information in the schedule is also presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

CLARK JOHNSON & ROBSON
Certified Public Accountants
Toledo, Ohio

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

To the Board of Directors of the
Toledo-Lucas County Port Authority

We have audited the general purpose financial statements of The Toledo-Lucas County Port Authority as of and for the year ended December 31, 1998, and have issued our report thereon dated October 7, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

This report is intended solely for the information of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Clark Johnson & Robson

October 7, 1999

CLARK JOHNSON & ROBSON
Certified Public Accountants
Toledo, Ohio

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of the
Toledo-Lucas County Port Authority

Compliance

We have audited the compliance of the Toledo-Lucas County Port Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 1998. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Toledo-Lucas County Port Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 1998.

Internal Control Over Compliance

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

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

This report is intended solely for the information of the board of directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used be used by anyone other than these specified parties.

Clark Johnson & Robson

October 7, 1999

TOLEDO-LUCAS COUNTY PORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1998

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of accountants' report issued - Unqualified

Internal control over financial reporting -

Material weakness identified?	____yes	_X_ no
Reportable condition identified that is not considered to be material weakness?	____yes	_X_ none reported
Noncompliance material to financial statements noted?	____yes	_X_ no

Federal Awards

Internal control over major programs -

Material weakness identified?	____yes	_X_ no
Reportable condition identified that is not considered to be material weakness?	____yes	_X_ none reported

Type of accountants' report issued on compliance for major programs - Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____yes	_X_ no

Identification of major programs-

CFDA Number - 20.106 Name of Federal Program - Airport Improvement Program
CFDA Number - 12.400 Name of Federal Program - Military Construction

Dollar threshold used to distinguish between type A and type B programs - $362,976

Auditee qualified as low-risk auditee	_X_ yes	____no

TOLEDO-LUCAS COUNTY PORT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 1998

SECTION II - FINANCIAL STATEMENT FINDINGS

NO MATTERS REPORTED

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

NO MATTERS REPORTED

TOLEDO-LUCAS COUNTY PORT AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 1998

NO MATTERS REPORTED

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

TOLEDO-LUCAS COUNTY PORT AUTHORITY

LUCAS 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.

By: Susan Babbitt

Date: FEBRUARY 24, 2000