

SUMMIT COUNTY PORT AUTHORITY

FINANCIAL STATEMENTS

December 31, 2001





STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Board of Directors
Summit County Port Authority
Akron, OH 44308-1125

We have reviewed the Independent Auditor's Report of the Summit County Port Authority, prepared by Bober, Markey, Fedorovich & Company, for the audit period January 1, 2001 through December 31, 2001. 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 Summit County Port Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

August 14, 2002

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SUMMIT COUNTY PORT AUTHORITY
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**Bober, Markey, Fedorovich
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Summit County Port Authority
Akron, Ohio

We have audited the accompanying financial statements of the Summit County Port Authority, Summit County, Ohio (the Authority) as of and for the year ended December 31, 2001, as listed in the table of contents. These financial statements are the responsibility of the 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 generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Summit County Port Authority as of December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BOBER, MARKEY, FEDOROVICH & COMPANY

May 16, 2002

SUMMIT COUNTY PORT AUTHORITY
BALANCE SHEET
December 31, 2001

ASSETS

CURRENT ASSETS

Cash		\$ 357,805
Administrative fees receivable		3,353
Prepaid insurance		1,619
TOTAL CURRENT ASSETS		362,777

RESTRICTED AND OTHER ASSETS

Restricted assets - Bond Fund Program Reserve		5,011,725
Lease receivable - Akron Civic Theater		14,646,070
TOTAL RESTRICTED AND OTHER ASSETS		19,657,795

TOTAL ASSETS		\$ 20,020,572
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LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES

Accounts payable		\$ 10,083
Accrued payroll and payroll taxes		7,886
TOTAL CURRENT LIABILITIES		17,969

OTHER LIABILITIES, INCLUDING AMOUNTS RELATING TO RESTRICTED ASSETS

Payable to Summit County for CAK International Business Park infrastructure improvements		1,613,073
Revenue Bonds - Akron Civic Theater		14,646,070
TOTAL OTHER LIABILITIES		16,259,143

FUND EQUITY

Retained earnings - restricted		5,000,000
Retained deficit		(1,256,540)
		3,743,460

TOTAL LIABILITIES AND FUND EQUITY		\$ 20,020,572
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The accompanying notes are an integral part of these financial statements.



SUMMIT COUNTY PORT AUTHORITY
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS (DEFICIT)
 For the Year Ended December 31, 2001

OPERATING REVENUES	
Grants	
Summit County	\$ 70,000
Community Development Block Grant	<u>114,857</u>
	184,857
Other operating revenues	
ASC Manufacturing, Ltd. - ground sublease rent	18,714
ASC Manufacturing, Ltd. - administrative fees	9,826
CAK Int'l Business Park - ground sublease rent	20,081
Loan processing fee - Akron Civic Theater	200,000
Contract services - Foreign Trade Zone services	10,125
Other	<u>27,204</u>
TOTAL OPERATING REVENUES	470,807
OPERATING EXPENSES	
Salaries and benefits	211,506
Miscellaneous operating expenses	77,108
ASW Real Estate, Inc. - ground lease rent	23,393
Professional services	77,479
Capital expenditures - culvert project	<u>263,847</u>
TOTAL OPERATING EXPENSES	653,333
OTHER REVENUE	
Grants-Bond Fund Program Reserve	5,000,000
Interest income	<u>63,375</u>
NET INCOME BEFORE TRANSFER OF FUNDS	4,880,849
Transfer of funds remaining in the capital projects fund to Summit County	<u>(81,128)</u>
NET INCOME AFTER TRANSFER OF FUNDS	4,799,721
RETAINED DEFICIT, BEGINNING OF YEAR, AS RESTATED	<u>(1,056,261)</u>
RETAINED EARNINGS, END OF YEAR	\$ <u>3,743,460</u>

The accompanying notes are an integral part of these financial statements



SUMMIT COUNTY PORT AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2001

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net operating loss	\$ (182,526)
Changes in operating assets and liabilities:	
Administrative fees receivable	(3,353)
Prepaid insurance	(1,619)
Accounts payable	10,083
Accrued payroll and payroll taxes	<u>7,886</u>
 NET CASH USED BY OPERATING ACTIVITIES	 (169,529)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Transfer remaining CDBG funds to Summit County	<u>(81,128)</u>
 NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	 (81,128)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Grant awards to establish Bond Fund Program Reserve	<u>5,000,000</u>
 NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	 5,000,000
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest income received	51,650
Purchase of investments	<u>(5,000,000)</u>
 NET CASH PROVIDED BY INVESTING ACTIVITIES	 (4,948,350)
 NET DECREASE IN CASH	 (199,007)
 CASH AT BEGINNING OF YEAR	 <u>556,812</u>
 CASH AT END OF YEAR	 <u>\$ 357,805</u>

SUPPLEMENTAL DATA OF NON CASH TRANSACTIONS:

In September, 2001, the Authority issued \$14.6 million of Special Obligation Revenue Bonds related to the renovation of the Akron Civic Theater. The Authority and the Akron Civic Theater also entered into a lease agreement for the lease of the renovated theatre, total lease receivables equal the bond obligation.

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



SUMMIT COUNTY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Entity

The Summit County Port Authority (the Authority) was formed by Summit County Council in 1993 to preserve key railroad lines from abandonment in an era of rail mergers and consolidations. County Council recognized the expanding role of port authorities within the state and passed legislation enabling the Authority to use the economic development powers allowed under the Ohio Revised Code.

The Authority is now encouraging industrial development, creating employment opportunities and providing financing and tax incentives to local businesses in order to provide a foundation to compete in the international marketplace. The Authority is directed by a seven-member Board appointed by the Summit County Executive, in accordance with the procedures provided by the Summit County Charter.

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

Basis of Accounting

These financial statements are presented on the accrual basis of accounting; revenues are recognized when earned and expenses are recognized as incurred. Revenues received in advance are deferred and recognized as earned over the period to which they relate.

Cash

Summit County is the fiscal agent for the Authority. Accordingly, the Summit County Auditor maintains the Authority's funds in an Agency fund on the County's financial records.

For the purposes of the statement of cash flows, cash and equivalents are defined as demand deposits held by Summit County and cash invested in the State Treasury Asset Reserve of Ohio.

Fund Accounting

The Authority maintains a General Fund, which is the general operating fund and a capital projects fund, which accounts for capital outlays of the Authority.

Budgetary Process

The Ohio Revised Code Section 4582.13 requires that each fund be budgeted annually. This budget includes estimated receipts and appropriations. In addition, the Rules and Regulations of the Authority require the Board to adopt an appropriation resolution. The Authority maintains budgetary control by not permitting expenditures to exceed their respective appropriations without amendment of appropriations from the Board of Directors.

Fixed Assets

Acquisitions of fixed assets are recorded as capital outlay disbursements when paid.

In January 2001, the Authority transferred their ownership of certain railroad lines to Metro Regional Transit Authority. Approximate cost of the railroad lines transferred was \$1,034,000. The Authority still maintains freight and development rights to these railroad lines.



SUMMIT COUNTY PORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2001

Restricted Assets – Bond Fund Program Reserve

The Authority's investment policies are governed by state statutes, which authorize the Authority to invest in certain obligations including State of Ohio obligations. All of the Authority's restricted assets are invested in the State Treasury Asset Reserve (STAR) of Ohio at December 31, 2001. These STAR Investments are considered cash equivalents.

NOTE 2 – CHANGE IN BASIS OF ACCOUNTING

In 2000, the Authority prepared its financial statements using the cash basis of accounting. In 2001, the Authority adopted the accrual basis of accounting for its financial statements, which is in accordance with principles generally accepted in the United States of America. Under the accrual basis of accounting, the Authority recognizes revenue when earned and expenses are recognized when incurred. The retained earnings at the beginning of the year has been restated to conform with the new basis of accounting. The restatement of decreasing retained earnings at the beginning of 2001 of approximately \$1.6 million is due to the impact of recording the payable to Summit County relating to the CAK International Business Park infrastructure improvements.

NOTE 3 – CASH POOL

The Summit County Auditor maintains a cash pool used by all of the County's funds, including those of the Authority. The Ohio Revised Code prescribes allowable deposits and investments. The Authority's carrying amount of cash on deposit with the County at December 31, 2001 was \$357,805 and \$0 in the general and capital funds, respectively. The Summit County Treasurer is responsible for maintaining adequate depository collateral for all funds in the Summit County's pooled and deposit accounts and ensuring that all monies are invested in accordance with the Ohio Revised Code.

NOTE 4 – BUDGETARY ACTIVITY

Budgetary activity for the year ended December 31, 2001 was as follows:

Fund Type	2001 Budget vs. Actual		Variance
	Budget	Actual	
General			
Revenues	\$ 509,147	\$ 419,325	\$ (89,822)
Expenditures	\$ 509,289	\$ 389,486	\$ (119,803)
Capital			
Revenues	\$ 344,975	\$ 114,857	\$ (230,188)
Expenditures	\$ 344,975	\$ 263,847	\$ (81,128)

NOTE 5 – BOND FUND PROGRAM

The Authority has established a Bond Fund Program to provide long-term, fixed interest rate financing for qualified industrial, commercial and public projects. The primary objective of the Bond Fund Program is to further economic development efforts and investment in Summit County through the retention and creation of quality, private-sector jobs.

The State of Ohio Department of Development (ODOD) awarded the Authority a grant of \$2 million, received in April, 2001, which was deposited into the Bond Fund Program Reserve



SUMMIT COUNTY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

account. The conditional grant from ODOD is for a 20 year term, with the interest earned on the fund remitted back to ODOD through December, 2011, beginning 2012 and continuing through December, 2021, 50% of the interest earned is required to be remitted back to ODOD. In February, 2001, the Authority obtained a \$3 million grant from Summit County for the Bond Fund Program, which was also deposited into the Bond Fund Program Reserve account.

Under the Program, debt service requirements on each bond issue are to be 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 provide a letter of credit as additional security for the related bonds. Amounts in the Bond Fund Program Reserve may be used for debt service in the event the borrower is unable to make the required payments under the lease. The Authority did not have any Bond issues under the Bond Fund Program as of December 31, 2001. Amounts held in the Authority's Bond Fund Program Reserve was \$5,011,725 at December 31, 2001 and are included in restricted investments in the accompanying balance sheet.

NOTE 6 – CONDUIT DEBT

On July 1, 1999, the Authority issued \$3,500,000 of Summit County Port Authority Variable Rate Revenue Bonds, Series 1999. The proceeds of the revenue bonds were used to fund the construction of a manufacturing facility. The issuance of the revenue bonds did not encumber the assets of the Authority. In addition, the Authority entered into a financing lease agreement pertaining to this manufacturing facility. The Authority owns the building and leases the building to ASC Manufacturing, Ltd. (ASC). The lease is non-cancelable until the underlying revenue bonds are paid in full. The lease payments cover principal and interest payments on the revenue bonds. All expenses related to the revenue bonds and the maintenance of the facility are the responsibility of ASC. ASC pays the lease payments directly to the trustee, Bank One, NA. In addition, an Agreement to Guarantee Financing was entered into between Summit County and Bank One, NA, the bond trustee.

In accordance with Governmental Accounting Standards, these revenue bonds issued by the Authority are considered conduit debt and do not create a liability and therefore are not presented on the Authority's financial statements. The Authority has no responsibility for the payment of the debt, as the bonds are guaranteed by Summit County and the lease payments are paid directly to the trustee, Bank One by ASC. Total amount of conduit debt outstanding was \$3,237,500 as of December 31, 2001.

NOTE 7 – PAYABLE TO SUMMIT COUNTY FOR CAK INTERNATIONAL BUSINESS PARK

During 1999, Summit County advanced funds on behalf of the Authority for the construction of the CAK International Business Park. The funds were used for road construction, water lines, sewers, and street lighting. The Authority is required to reimburse Summit County for these funds over an 18 year amortization, with annual payments of principal and interest, commencing on December, 2002 through December, 2019. Interest from August, 1999 to December, 2002 is being forgiven by Summit County. Interest is variable ranging from 4.65% to 6.6%, with escalating principal payments ranging from \$25,000 to \$250,000 throughout the term of the debt. Total amount of this debt was \$1,753,627, however, \$186,011 of the debt proceeds was retained by Summit County and will be used to pay both principal (\$140,544) and interest (\$45,467) on the debt until the \$186,011 is exhausted. Therefore the Authority's debt obligation is \$1,613,073 at December 31, 2001.



SUMMIT COUNTY PORT AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
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Approximate annual principal payments, required to be made by the Authority, under this debt for the next five years and thereafter are:

2002	\$ -
2003	-
2004	-
2005	98,248
2006	115,408
Thereafter	1,399,417
	<u>\$ 1,613,073</u>

NOTE 8 – AKRON CIVIC THEATER PROJECT

On September 1, 2001, the Authority issued \$14.6 million of Summit County Port Authority Revenue Bonds, comprised of \$13.6 million of Current Interest Bonds and \$1 million of Capital Appreciation Bonds. The proceeds from the revenues bonds were primarily used to fund the renovation of the Akron Civic Theater facility. These bonds are special obligations of the Authority payable solely from the proceeds received by the Authority under its lease with the Akron Civic Theater and do not represent or constitute a debt or a pledge of the credit of the Authority. In connection with this financing, the Authority received \$200,000 in loan processing fees, which is being recognized in 2001 revenues.

The Akron Civic Theater and the Authority entered into a financing lease agreement pertaining to the Civic theater facility. The Authority owns the theater facility and leases the theater to the Akron Civic Theater. The lease is non-cancelable until the underlying revenue bonds are paid in full. Lease payments will be derived from the County Bed Tax revenues, through agreement among Summit County, National Inventors Hall of Fame and the Authority. In addition, the City of Akron guarantees the bonds.

All expenses related to the revenue bonds are being paid out of the bond proceeds. The operation and maintenance of the theatre is the responsibility of the Akron Civic Theater.

Because the Authority has assumed no responsibility for the repayment of any of the bonds described above beyond the resources provided by the underlying lease, no activity pertaining to the project has been recognized in the accompanying statements of revenue, expenses and changes in retained earnings and cash flows except for the financing fees received.

NOTE 9 – LEASES

Leases with ASW Real Estate, Inc. and ASC Manufacturing, Ltd.

The Authority leased certain real property under an operating lease from ASW Real Estate, Inc. Rental expense under this lease was \$23,393 for 2001. The Authority then subleases this real property under a noncancellable operating lease to ASC Manufacturing, Ltd. Total rental income from this lease was \$18,714 for 2001.

In February, 2001, the Authority entered into an agreement, whereby the above lease payments and receipts are no longer passed through the Authority. Beginning in March 2001, the Authority was no longer responsible for the future minimum lease payments, nor will it collect the rental income under the related sublease.



SUMMIT COUNTY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

Operating leases

The Authority leases office space and certain equipment under operating leases. Rental expense was \$16,998 under these leases for 2001. Future minimum lease payments under non-cancelable operating leases that have initial or remaining terms in excess of one year are as follows:

2002	\$ 31,957
2003	32,427
2004	33,408
2005	31,730
2006	33,140
Thereafter	130,270
	<u>\$ 292,932</u>

NOTE 10 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to or destruction of assets; errors or omissions; injuries to employees; or acts of God. Commercial insurance has been obtained to cover damage or destruction of the Authority's property and for public liability, personal injury, and third-party property damage claims.

Employee health care benefits are provided under a group insurance arrangement and the Authority is insured through the State of Ohio for workers' compensation benefits.

NOTE 11 – RELATED PARTY TRANSACTIONS AND ECONOMIC DEPENDENCE

The Authority uses certain Summit County employees without reimbursement. In addition, the Authority receives a significant portion of its revenue from a Summit County grant.

NOTE 12 – NEW ACCOUNTING STANDARDS

The GASB has issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This statement establishes reporting standards for external financial reporting by governmental units. Statement No. 34 is effective for the year ending December 31, 2004. The Authority has not completed an analysis of the impact of this new statement on its financial statements.

NOTE 13 – SUBSEQUENT EVENTS

In April, 2002 the Authority entered into two agreements as follows:

An unsecured, interest-free, line of credit with Summit County for \$1 million. The line of credit expires on October 31, 2003, at which time all amounts outstanding under the line are due.

The Authority and the Akron Civic Theater entered into an unsecured line of credit up to \$850,000 with the City of Akron. The Akron Civic Theater is responsible for repayment of the line of credit. The Authority administers the line of credit/loan fund created by the City of Akron under this agreement. The line of credit is interest-free and calls for unspecified monthly principal payments commencing November 2003 for a three-year period ending October 2006.



SUMMIT COUNTY PORT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
December 31, 2001

In March, 2002, the Authority completed a financing transaction with Summa Health System Hospitals (Summa). The project involves constructing Summa's new Cardiopulmonary Center of Excellence and Women's and Men's Health Center of Excellence and a physician's office tower. The Authority will serve as construction agent during the project's 14-month construction period. The Authority also issued \$17 million in variable rate taxable bonds and \$10.5 million in variable rate tax-exempt bonds for this project.





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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING ON AN AUDIT OF FINANCIAL STATEMENTS IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors
Summit County Port Authority
Akron, Ohio

We have audited the accompanying financial statements of the Summit County Port Authority, Summit County, Ohio, (the Authority) as of and for the year ended December 31, 2001, and have issued our report dated May 16, 2002. We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the 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 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 instance of noncompliance that is 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. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Authority in a separate letter dated May 16, 2002.

This report is intended for the information and use of the finance committee, management, and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.

Bob Markey, Edward L. Gony

BOBER, MARKEY, FEDOROVICH & COMPANY

May 16, 2002





STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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SUMMIT COUNTY PORT AUTHORITY

SUMMIT 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
AUGUST 27, 2002**