



Mary Taylor, CPA
Auditor of State

PORT AUTHORITY
ALLEN COUNTY

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Port Authority
Allen County
P.O. Box 5332
Lima, Ohio 45802

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Port Authority, Allen County, (the Authority), as of and for the years ended December 31, 2006 and 2005, which comprise the Authority's basic financial statements 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

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, Allen County, 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.

For fiscal year 2005, the Authority implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*".

In accordance with *Government Auditing Standards*, we have also issued our report dated July 26, 2007, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Mary Taylor". The signature is written in a cursive, flowing style.

Mary Taylor, CPA
Auditor of State

July 26, 2007

**PORT AUTHORITY
ALLEN COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
UNAUDITED**

The discussion and analysis of the Port Authority of Allen County's (the PAAC) financial performance provides an overall view of the PAAC's financial activities for the fiscal years ended December 31, 2006 and 2005. The intent of this discussion and analysis is to look at the PAAC's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the PAAC's financial performance. The PAAC implemented Statement No. 34 of the Governmental Accounting Standards Board, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, effective January 1, 2005.

FINANCIAL HIGHLIGHTS

- Total assets at year-end 2006 and 2005 were \$2,616,470 and \$2,618,983, respectively.
- Total Liabilities at year-end 2006 and 2005 were \$464,359 and \$612,794, respectively.
- Total Net Assets at year-end 2006 and 2005 were \$2,152,111 and \$2,006,189 respectively.

USING THIS ANNUAL FINANCIAL REPORT

This report consists of three parts, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

Statement of Net Assets - The Statement of Net Assets answers the question, "How did we do financially during the year?" This statement includes all assets and liabilities, both financial and capital, and short-term and long-term using the accrual basis of accounting and economic resources focus, which is similar to the accounting used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

Table 1 provides a summary of the PAAC's net assets for fiscal year 2006 compared to fiscal years 2005 and 2004.

	Table 1		
	Net Assets		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Assets			
Cash	\$874,080	\$1,100,435	\$226,508
Notes Receivable	912,585	688,743	618,844
Capital Assets, Net	829,805	829,805	1,822,820
Total Assets	<u>2,616,470</u>	<u>2,618,983</u>	<u>2,668,172</u>
Liabilities			
Current Liabilities	464,359	612,794	45,000
Noncurrent Liabilities			1,223,744
Total Liabilities	<u>464,359</u>	<u>612,794</u>	<u>1,268,744</u>
Net Assets			
Invested in Capital Assets	829,805	829,805	1,166,870
Unrestricted	1,322,306	1,176,384	232,558
Total Net Assets	<u><u>\$2,152,111</u></u>	<u><u>\$2,006,189</u></u>	<u><u>\$1,399,428</u></u>

**PORT AUTHORITY
ALLEN COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
UNAUDITED
(Continued)**

Total assets decreased by \$2,513, or 0.10 percent from fiscal year 2005 to 2006. Total assets decreased by \$49,189, or 0.185 percent from fiscal year 2004 to 2005. Cash decreased by \$226,355 in 2006 over 2005 and increased \$873,927 in 2005 over 2004. During 2006 and 2005, loans receivable increased by \$223,842 and \$69,899, respectively. During 2006 and 2005, total liabilities decreased by \$148,435 and by \$655,950, respectively. For 2006 and 2005, PAAC's net assets increased by \$145,922 and \$606,761, respectively, which represents a 7.27 percent increase from fiscal year 2005 and a 43.4 percent increase from fiscal year 2004. For 2006, this was due, in part, to an increase in revenues without a corresponding increase in expenses and the Lima Area Development Corporation forgiving debt due in the amount of \$148,435. For 2005, the increase in cash and the decrease in liabilities was due, in part, to the sale of a building and the redemption of the related debt.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by operating funding sources. Since the year 2005 was the first year the PACC prepared financial statements following the format prescribed by GASB Statement 34, receipts and disbursement comparison to year 2004 are not available. The following is a comparison of 2006 compared with 2005.

**Table 2
Change in Net Assets**

	<u>2006</u>	<u>2005</u>
Operating Revenue		
Railroad Rent	\$5,000	
Lease Revenue		\$98,352
Interest and Fee Income from Loans	23,660	13,760
Application Fees		6,376
Other Receipts	3,959	1,500
Total Operating Revenues	<u>32,619</u>	<u>119,988</u>
Operating Expenses		
Interest Payment on Debt		18,057
Property Taxes		71
Central Point Industrial Park Property Expense		19,088
Depreciation		17,718
Technical Assistance	19,052	24,633
Audit Fees		3,470
Insurance	100	100
Bank Fees	904	905
Publications	584	
Dues	170	250
Miscellaneous	50	85
Total Operating Expenses	<u>20,860</u>	<u>84,377</u>
Non-Operating Revenues and (Expenses)		
Grants Received - Federal		435,000
Grants Disbursed	(53,500)	
Gain on Sale of Capital Assets		129,123
Bank Interest Income	39,228	7,027
Capital Contributions	148,435	
Total Non-Operating Revenues and (Expenses)	<u>134,163</u>	<u>571,150</u>
Increase/(Decrease) in Net Assets	<u>\$145,922</u>	<u>\$606,761</u>

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**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2006 AND 2005
UNAUDITED
(Continued)**

Revolving loan fund principal and interest repayments, as a whole, are the primary support for the PAAC, representing 91.64 percent and 39.92 percent of the operating cash flow for 2006 and 2005, respectively. Technical Assistance comprises 91.34 percent and 29.2 percent of operating expenses for 2006 and 2005, respectively.

CAPITAL ASSETS

At the end of both fiscal years 2006 and 2005, the PAAC had \$829,805 invested in real estate property. The PAAC holds various properties for investment for future sale. See Note 6 for further information.

DEBT

At December 31, 2006 and 2005, the PAAC had the following in outstanding debt, which is due within one year. Table 3 summarizes the debt outstanding.

Table 3
Outstanding Debt at Year End

	<u>2006</u>	<u>2005</u>
Notes Payable	<u>\$464,359</u>	<u>\$612,794</u>

The decrease in debt is a result of the Lima Area Development Corporation discontinuing operations and forgiving debt due from the PAAC. For more information on outstanding debt, see the Note 8 to the basic financial statements.

CONTACTING THE PAAC'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens with a general overview of the PAAC's finances and to show the PAAC's accountability for the money it receives. If you have questions about this report or need additional information contact Ms. Julie Jurosic, Acting Treasurer of the Port Authority of Allen County, P.O. Box 5332, Lima, Ohio 45802-5332 or e-mail at jjurosic@wcdcorp.com.

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**PORT AUTHORITY
ALLEN COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Current Assets		
Cash	\$874,080	\$1,100,435
Loans Receivable	<u>912,585</u>	<u>688,743</u>
Total Current Assets	1,786,665	1,789,178
Non Current Assets		
Nondepreciable Capital Assets	<u>829,805</u>	<u>829,805</u>
Total Assets	2,616,470	2,618,983
Current Liabilities		
Loans Payable	<u>464,359</u>	<u>612,794</u>
Total Liabilities	<u>464,359</u>	<u>612,794</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt	829,805	829,805
Unrestricted	<u>1,322,306</u>	<u>1,176,384</u>
Total Net Assets	<u><u>\$ 2,152,111</u></u>	<u><u>\$ 2,006,189</u></u>

See accompanying notes to basic financial statements.

**PORT AUTHORITY
ALLEN COUNTY**

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005**

	<u>2006</u>	<u>2005</u>
Operating Revenues		
Lease Revenue		\$98,352
Railroad Rent	\$5,000	
Interest Income from Loans	23,660	13,760
Application Fee Income From Loans		6,376
Other Receipts	3,959	1,500
Total Operating Revenues	<u>32,619</u>	<u>119,988</u>
Operating Expenses		
Interest Payment on Debt		18,057
Property Taxes		71
Central Point Industrial Park Property Expense		19,088
Depreciation		17,718
Technical Assistance	19,052	24,633
Audit Fees		3,470
Insurance	100	100
Bank Fees	904	905
Publications	584	
Dues	170	250
Miscellaneous	50	85
Total Operating Expenses	<u>20,860</u>	<u>84,377</u>
Operating Income	11,759	35,611
Non operating Revenues/Expenses		
Grants Received - Federal		435,000
Grants Disbursed	(53,500)	-
Gain on Sale of Capital Assets		129,123
Capital Contributions	148,435	
Bank Interest Income	39,228	7,027
Total Non operating Revenues/Expenses	<u>134,163</u>	<u>571,150</u>
Net Income	145,922	606,761
Net Assets - Beginning of Year	<u>2,006,189</u>	<u>1,399,428</u>
Net Assets - End of Year	<u><u>\$2,152,111</u></u>	<u><u>\$2,006,189</u></u>

See accompanying notes to the basic financial statements.

**PORT AUTHORITY
ALLEN COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006 AND 2005**

	2006	2005
Cash Flows From Operating Activities		
Lease Rent		\$98,352
Railroad Rent	\$5,000	
Interest Receipts on Loan Receivables	23,660	13,760
Principal Receipts on Loans	74,450	56,809
Application Income From Loan Receivables		6,376
Miscellaneous Cash Receipts	3,959	1,500
Cash Payments for Goods or Services	(20,860)	(66,659)
Loans Disbursed	<u>(298,292)</u>	<u>(126,708)</u>
Net Cash Used in Operating Activities	(212,083)	(16,570)
 Cash Flows From Non Capital Financing Activities		
Grants Received		435,000
Grants Disbursed	<u>(53,500)</u>	
Net Cash Provided by Capital Financing Activities	(53,500)	435,000
 Cash Flows From Capital Financing Activities		
Cash Proceeds From Sale of Property		1,104,420
Principal Payments on Bond Debt		<u>(655,950)</u>
Net Cash Provided by Capital Financing Activities		448,470
 Cash Flows From Investing Activities		
Interest Income from Bank	<u>39,228</u>	<u>7,027</u>
Net Cash from Investing Activities	39,228	7,027
 Net Increase (Decrease) in Cash	(226,355)	873,927
 Cash at January 1	<u>1,100,435</u>	<u>226,508</u>
 Cash at December 31	<u><u>874,080</u></u>	<u><u>1,100,435</u></u>
 Reconciliation of operating income to net cash provided by operating activities		
Operating Income	11,759	35,611
 Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation		17,718
(Increase) Decrease in Loans Receivable	<u>(223,842)</u>	<u>(69,899)</u>
 Net cash provided by (used for) operating activities	<u><u>(\$212,083)</u></u>	<u><u>(\$16,570)</u></u>

See accompanying notes to the basis financial statements.

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**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

1. DESCRIPTION OF THE ENTITY

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

The Port Authority is considered a component unit of Allen County.

The Port Authority Board of Directors consists of the number of Directors it deems necessary and they are appointed by the Allen County Commissioners. Currently, seven Directors serve on the Board.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

A. Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The Authority uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Authority's financial statements are prepared using the accrual basis of accounting.

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the Authority receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the Authority must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to Authority on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

The Ohio Revised Code requires that the fund be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. The Authority did not use the encumbrance method of accounting.

E. Cash and Cash Equivalents

The Authority's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The Authority's funds are held in checking and savings accounts, and repurchase agreements.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the Authority are considered to be cash equivalents.

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. All of the Authority's capital assets are non-depreciable land properties.

G. Loans Receivable

Loans receivable represent loans to companies that have been awarded loans under the revolving loan program through the Small Cities Community Development Block Grant Program.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 Authority or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. The Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Authority, these revenues are primarily principal and interest loan repayments. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Authority. Revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

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

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND EQUITY

For fiscal year 2005, the Authority implemented Governmental Accounting Standards Board Statement (GASB) No. 34, "*Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*," and Governmental Accounting Standards Board (GASB) Statement Number 40, "*Deposits and Investment Risk Disclosure*".

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND EQUITY (Continued)

GASB Statement No. 34 creates new basic financial statements for reporting on the Authority's financial activities. The beginning net asset amount reflects the change in fund balance at December 31, 2004, caused by the conversion to the accrual basis of accounting.

GASB Number 40 establishes and modifies the disclosure requirements related to investment risks. The implementation of this statement did not result in any change to the Authority's financial statements.

The restatement due to the implementation of the above statements had the following effects on fund equity of the Authority as previously reported. The transition from fund balance to net assets of business-type activities is as follows:

Fund Balance December 31, 2004	\$226,508
Loans Receivable	618,844
Capital Assets (Net of Accumulated Depreciation)	1,822,820
Long Term Liabilities	<u>(1,268,744)</u>
Net Assets - January 1, 2005	<u><u>\$1,399,428</u></u>

4. DEPOSITS AND INVESTMENTS

State statutes require the classification of the monies held by the Authority into three categories:

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

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

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

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury 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;

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

4. DEPOSITS AND INVESTMENTS (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, or Ohio local governments;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);

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. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits - Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the Authority's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits.

At December 31, 2006 and 2005, the carrying amount of the Authority's deposits was \$705,717 and \$681,557, respectively. \$100,000 of the Authority's deposits was insured by Federal depository insurance for each year. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, as of December 31, 2006 and 2005, \$605,717 of the Authority's bank balance of \$705,717 and \$581,557 of the Authority's bank balance of \$681,557, respectively, was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Authority's name.

The Authority has no deposit policy for custodial risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Authority or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

	2006	2005
Repurchase Agreement	<u>\$168,363</u>	<u>\$418,878</u>

The maturity date for repurchase agreements must not exceed thirty days. The market value of securities subject to the repurchase agreement must exceed the principal of the agreement by at least 2 percent and must be marked to market daily.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

5. LOANS RECEIVABLE

The Authority receives periodic loan repayments from companies awarded loans under the revolving loan program through the Small Cities Community Development Block Grant Program. Currently there are five loans outstanding that are being repaid with the funds going into the revolving loan fund for relending. The following companies comprised the outstanding revolving loans at December 31, 2006:

Revolving Loans

Outstanding Loans	Loans			Loans			Balance 12/31/06
	Balance 1/1/05	Issued 2005	Principal Received	Balance 1/1/06	Issued 2006	Principal Received	
GMR, Inc.	\$151,850		\$21,768	\$130,082		\$22,430	\$107,652
Delphos Discount Drugs	20,089		11,851	8,238		8,238	
Broadway Kids Place	37,930		1,916	36,014		2,065	33,949
Crites Excavating Inc.	130,800		15,763	115,037		19,389	95,648
Randall Bearings Inc.	40,000		5,511	34,489		5,277	29,212
Precision Thermoplastic		126,708		126,708	298,292	17,051	407,949
Total	\$380,669	\$126,708	\$56,809	\$450,568	\$298,292	\$74,450	\$674,410

Local Development Loans

The Authority receives periodic loan repayments from various organizations awarded loans with local funds. In July of 1998, a loan was made to the Lima Growth Association for the purpose of developing infrastructure for three lots numbered one, four, and five within the Shawnee Industrial Park. The loan was issued in the amount of \$200,000 with an interest rate of four percent and will become due and payable upon the sale of the property, but not later than three years from the date of the promissory note. During 2001, Lima Growth requested extension of the loan for another three years. Lot numbers one and four were sold in December 2003 and February 2001, respectively. There have been no repayments on this loan, nor was there activity during this two year period. The loan balances as of December 31, 2006 are as follows:

Outstanding Loans	December 31, 2006
Lima Growth Association	\$200,000
Allen County Development Corporation	38,175
Total Loans	\$238,175

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ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

6. CAPITAL ASSETS

The Authority had \$829,805 in non-depreciable capital assets at December 31, 2006 and 2005. This is composed of various land properties in Allen County. There were no additions to capital assets during 2006 and 2005. The only deletion during 2006 and 2005 occurred with the sale of a building, which occurred on July 29, 2005, with a net gain of \$129,123.

Capital assets include the following:

Bible Road Property - During August 1986, the Authority purchased 54.81 acres of land in the Bible Road Industrial Park. The land was recorded at cost. There are 25.21 acres remaining which has a remaining value of \$155,305.

Market Street Property - During November of 1997, the Allen County Commissioners deeded land to the Authority which was recorded at fair market value. In March and June of 1998, the Allen County Commissioners deeded additional land with a building (which was torn down) to the Authority which was also recorded at fair market value. The total value recorded was \$318,000. This land was leased to Allen County Properties for the construction and operation of a hotel in downtown Lima. The lease is for 99 years at \$1.00 per year.

Railway - The Authority holds approximately 44 percent interest in a railway which it leases to a private railroad company. The recorded value is \$167,200. Monthly rental fees are \$200. The lease began on December 17, 2004 and will continue through December 31, 2014 and thereafter from year to year until terminated by either party.

Shawnee Industrial Park – During August 1999, the Allen County Commissioners deeded land to the Authority to be used for economic development. The land was recorded at the fair market value of \$189,000.

7. RISK MANAGEMENT

The Authority has obtained commercial insurance for the risk of public employee dishonesty. Allen County maintains an umbrella liability insurance policy that covers any property that has been transferred by the County to the Authority for economic development purposes.

8. LONG-TERM DEBT

A. Outstanding Notes

Lima Area Development Corporation (LADCO)

The Port Authority purchased tracts of land from LADCO to be held for future development. There is no interest charge and payments are to be made solely from lot sales of the properties. These tracts of land secured these notes. The Authority received approval for a three-year extension of the note, beginning July 28, 2004, and expiring on July 27, 2007, at an interest rate of four percent per annum.

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

8. LONG-TERM DEBT (Continued)

	<u>January 1, 2005</u>	<u>Issued</u>	<u>Retired</u>	<u>January 1, 2006</u>	<u>Issued</u>	<u>Forgiven</u>	<u>December 31, 2006</u>
Loan A	\$ 85,321	\$ 0	\$ 0	\$ 85,321	\$ 0	\$ 85,321	\$ 0
Loan B	63,114	0	0	63,114	0	63,114	0
Total	<u>\$148,435</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$148,435</u>	<u>\$ 0</u>	<u>\$ 148,435</u>	<u>\$0</u>

On April 27, 2006, LADCO Board Members approved the release of the Authority from the above debt obligation.

B. Outstanding Loans

County Commissioners

On June 28, 1995, the Allen County Commissioners loaned the Authority \$165,559 at zero percent interest. The funds were then loaned to the Allen County Development Corporation for the construction of a Spec building in the Central Point Industrial Park.

On June 3, 1997, the Allen County Commissioners loaned the Authority \$240,000 at zero percent interest. This loan was used to lend \$150,000 to A.P. Products to fund the structural improvement of the Spec building. The remaining \$90,000 was used towards the purchase price of the A.P. Products property. Repayment of this loan is required when this property is sold.

In July 1999, the Allen County Commissioners loaned the Authority \$8,800 at zero percent interest. This loan was used to lend \$8,800 to Allen County Development Corporation. Repayment of this loan to the Commissioners is required in full when received from Allen County Development Corporation through the sale of the Spec building, but not later than two years from the date of the loan. This note was rewritten in July 2001.

The Spec building was sold on July 29, 2005 and the above loans are now due and payable.

On July 21, 1998, the Allen County Commissioners loaned the Authority \$50,000 at zero percent interest. The loan was used for economic development purposes in the form of a loan to the Lima Growth Association for the development of infrastructure on property included in an industrial park. This loan shall become due and payable upon sale of the property, but not later than three years of the date of the loan. During 2001, this loan was extended for another three years.

<u>Outstanding January 1, 2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding January 1, 2006</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding December 31, 2006</u>
\$464,359	\$0	\$0	\$464,359	\$0	\$0	\$464,359

**PORT AUTHORITY
ALLEN COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(Continued)**

8. LONG-TERM DEBT (Continued)

C. Outstanding Bonds

The Authority issued economic development revenue bonds on August 21, 1997, with a maturity date of September 1, 2005, in the amount of \$992,000 with an interest rate of 9.375 percent. The interest rate decreased to 6.5 percent September 1, 2002. The bonds were issued for the purpose of financing costs for the acquisition and installation of a commercial facility to be leased to A.P. Products.

The bond activity for the year 2005 is as follows:

Outstanding January 1, 2005	Issued	Retired	Outstanding January 1, 2006	Issued	Retired	Outstanding December 31, 2006
\$655,950	\$0	\$655,950	\$0	\$0	\$0	\$0

Principal of \$45,000 and interest of \$18,057 was paid on the above debt until the time of the sale of the commercial facility on July 29, 2005. The sale proceeds retired the remaining debt amount.

D. Railroad Lease Deposit

The Allen-Van Wert Railroad Company retained rights to a security deposit previously made with the Allen County and Van Wert Port Authorities in the amount of \$380,000. The deposit is held in the ratio of each Port Authority's interest in the railroad; 44 percent and 56 percent respectively. This lease agreement is further explained in Note 6 to the financial statements.

9. GRANTS

The Authority receives federal grants. The expenditure of these funds generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the Authority. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the Authority at December 31, 2006.

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Mary Taylor, CPA

Auditor of State

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

Port Authority
Allen County
P.O. Box 5332
Lima, Ohio 45802

To the Board of Directors:

We have audited the financial statements of the Port Authority, Allen County, (the Authority) as of and for the years ended December 31, 2006 and 2005, and have issued our report thereon dated July 26, 2007, wherein we noted the Authority implemented Governmental Accounting Standards Board Statement No. 34 – *“Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”*. 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 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 Authority’s internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the 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 Authority’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Authority’s internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiencies described in the accompanying schedule of findings as items 2006-001 and 2006-002 to be significant deficiencies in internal control over financial reporting.

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

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**Internal Control Over Financial Reporting
(Continued)**

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 deficiencies described above, we believe finding number 2006-002 is also a material weakness.

We noted a certain matter that we reported to management in a separate letter dated July 26, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards*, and is described in the accompanying schedule of findings as item 2006-001.

We also noted certain noncompliance or other matters that we reported to the Authority's management in a separate letter dated July 26, 2007.

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



Mary Taylor, CPA
Auditor of State

July 26, 2007

PORT AUTHORITY
ALLEN COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER - 2006-001

NON COMPLIANCE AND SIGNIFICANT DEFICIENCY

Prior Certification for Obligations

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

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

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

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Authority.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.
3. **Blanket certificate** – The Authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

During 2006 and 2005, the Authority did not properly certify the availability of funds for any transactions. Failure to properly certify the availability of funds can result in overspending and negative cash fund balances.

**FINDING NUMBER - 2006-001
(Continued)**

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

The Authority should certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Acting Secretary and Board should sign the certification at the time the Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

FINDING NUMBER - 2006-002

MATERIAL WEAKNESS AND SIGNIFICANT DEFICIENCY

Default Status of Loans Payable

The Allen County Commissioners loaned the Authority funds for economic development for use in the Central Point Industrial Park on the following dates in the following amounts: \$165,559 on June 28, 1995; \$240,000 on June 3, 1997; \$50,000 on July 21, 1998; and \$8,800 in July 1999. These funds were used towards the construction of a Spec building at the property. Repayment of these loans was to become due and payable at varying times with the latest of due dates being upon the sale of the property. On July 29, 2005, the Spec building was sold. As of the report date, these loans have not been repaid to the County Commissioners despite becoming due and payable upon the sale of the property.

The Authority should make full payment on the above loans due to the County Commissioners as soon as possible. If payment is not made immediately, a new agreement should be created between the Authority and the County Commissioners. In the future, loans payable should be monitored and payment made in accordance with terms of the loan.

Officials' Response:

We received no response to findings 2006-001 and 2006-002 above.

PORT AUTHORITY
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2006 AND 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i>
2004-001	Ohio Rev. Code Section 5705.41(D); Prior certification was not obtained for obligations.	No	Repeated as 2006-001



Mary Taylor, CPA
Auditor of State

PORT AUTHORITY

ALLEN 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 16, 2007**