



Dave Yost • Auditor of State

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY
TABLE OF CONTENTS**

Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets	7
Statement of Revenues, Expenses and Changes in Net Assets	8
Statement of Cash Flows	9
Notes to the Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	17
Schedule of Findings	19

This page intentionally left blank.



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Lorain County Port Authority
Lorain County
226 Middle Avenue
Elyria, Ohio 44035

To the Board of Directors:

We have audited the accompanying financial statements the of Lorain County Port Authority, Lorain County, Ohio (the Authority), a component unit of Lorain County, as of and for the year ended December 31, 2011, which collectively 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 respective financial position of Lorain County Port Authority, Lorain County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, 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 June 27, 2012, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

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

Dave Yost
Auditor of State

June 27, 2012

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

The following Management's Discussion and Analysis (MD&A) of the Lorain County Port Authority's (the Authority) financial performance provides an introduction to the financial statements for the year ended December 31, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- At December 31, 2011, the assets of the Authority exceeded the liabilities by \$4,282,798.
- Total net assets for 2011 increased by \$73,328 or 1.7% which is a decrease from 2010, in which net assets increased \$205,278 or 5.1% from 2009.
- The Authority's total revenues amounted to \$399,791 in 2011, of which \$313,924 or 78.5% were operating revenues and \$85,867 or 21.5% were non-operating revenues.
- The Authority's had \$326,463 in total expenses in 2011, of which \$319,096 or 97.7% were operating expenses and \$7,367 or 2.3% were non-operating expenses.

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting. The Authority is structured as a single business-type activity with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. The following statements are included:

Statement of Net Assets – presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Assets – has been included to present information showing how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Statement of Cash Flows – presents only the flow of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement.

FINANCIAL POSITION

The following represents the Authority's financial position for the years ended December 31, 2011 and December 31, 2010:

**Table 1
Lorain County Port Authority
Net Assets**

	2011	2010
ASSETS:		
Cash and Cash Equivalents	\$442,178	\$331,790
Accounts Receivable	46,840	0
Restricted Assets	2,510,612	2,506,367
Capital Assets, net of depreciation	1,785,262	1,823,000
Total Assets	<u>4,784,892</u>	<u>4,661,157</u>
LIABILITIES:		
Accounts Payable	58,980	8,823
Security Deposits Payable	800	450
Bond Issuance Costs Payable	24,691	30,000
Loan Payable - County	385,441	382,116
Intergovernmental Payable - County	30,000	30,000
Intergovernmental Payable - State	2,182	298
Total Liabilities	<u>502,094</u>	<u>451,687</u>
NET ASSETS:		
Invested in Capital Assets, Net	1,785,262	1,823,000
Restricted - Bond Fund Program Reserves	2,510,612	2,506,367
Unrestricted (Deficit)	(13,076)	(119,897)
Total Net Assets	<u>\$4,282,798</u>	<u>\$4,209,470</u>

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

2011 was the tenth year of operations for the Authority. Restricted Assets and Restricted Net Assets represents grant funds from the State of Ohio Department of Development and Lorain County along with designated interest earnings. These funds are held in a trust with U.S. Bank to cover debt service payments in the event a borrower participating in the Authority's Bond Fund Program is unable to make the required payments.

"Loan Payable - County" represents the cumulative operating costs incurred by the Authority that have been paid by Lorain County.

During 2011, the Authority's overall financial position increased by \$73,328.

The following represents the Authority's summary of changes in net assets:

**Table 2
Lorain County Port Authority
Revenues, Expenses and Changes in Net Assets**

	2011	2010
Operating Revenues	\$313,924	\$211,277
Operating Expenses	(319,096)	(186,299)
Operating Income (Loss)	(5,172)	24,978
Non-Operating Revenues	85,867	180,300
Non-Operating Expenses	(7,367)	0
Change in Net Assets	73,328	205,278
Net Assets, Beginning of Year	4,209,470	4,004,192
Net Assets, End of Year	\$4,282,798	\$4,209,470

A comparative analysis of the Authority's financial position and change in net assets is as follows:

- Operating Revenues increased \$102,647 from 2010 due mainly to rental income.
- Operating Expenses increased \$132,797 from 2010 due mainly to an increase in real estate taxes.

Due to a slower than expected economy and limited financial resources available to the Lorain County Port Authority, growth has been below expectations. The difficult national economy combined with the pressure placed on rating agencies by the Federal Bank Regulators caused by concerns with "hedge funds" will likely cause a slow down in the Port Authority's ability to issue bond debt. Therefore the Lorain County Port Authority has taken the Port Authorities direction into property ownership and management.

Further, a legal opinion has been rendered for the Lorain County Port Authority that they can own, buy, sell, and accept donations of real property including but not limited to land and buildings. The County Port Authority acquired two (2) parcels of land including both improved and unimproved properties.

The Authority continues to receive applications and associated application fees from various companies. These applications are generating future activity for the growth of the Authority. The County directed all Industrial Revenue Bonds (IRB) to be processed by the County Port Authority beginning mid year 2008. Prior to this shift in policy by the Board of Commissioners the Lorain County Industrial and Economic Industrial Development Corporation (CIC) had issued IRB debt. All fees and interest payments are made and retained by the County Port Authority generated by IRB's. However, due to the market conditions stated above; the Authority's activity has stagnated. We continue to receive inquiries about Port Authority lending, and we are seeking out market solutions, including but not limited to, partnership with other local Port Authorities and alternative mechanisms to provide finance to local companies.

At the September 30, 2011 quarterly meeting, Glen W. Wilson was named Executive Director.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
(UNAUDITED)**

CAPITAL ASSETS

The Authority's investment in capital assets as of December 31, 2011, amounts to \$1,785,262 (net of accumulated depreciation). This investment in capital assets consists of two buildings and building improvements. The total decrease of \$37,738 in the Port Authority's investment in capital assets for the current year was due to current year depreciation expense.

Table 3
Lorain County Port Authority
Capital Assets, Net of Depreciation

	2011	2010
Buildings	1,498,021	1,529,857
Building Improvements	287,241	293,143
Total Capital Assets, Net of Depreciation	\$1,785,262	\$1,823,000

Additional detailed information relating to the Authority's capital assets is contained in Note 5 of the Notes to the Basic Financial Statements.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Lorain County Port Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Patrick Metzger, Lorain County Port Authority, 226 Middle Avenue, Elyria, OH 44035.

This page intentionally left blank

Lorain County Port Authority
Statement of Net Assets
As of December 31, 2011

Assets

Current Assets:

Cash and Cash Equivalents	\$442,178
Accounts Receivable	46,840

Noncurrent Assets:

Restricted Bond Fund Program Reserves	2,510,612
---------------------------------------	-----------

Capital Assets:

Depreciable Capital Assets, Net	1,785,262
---------------------------------	-----------

Total Assets	<u>4,784,892</u>
--------------	------------------

Liabilities

Current Liabilities

Accounts Payable	58,980
Security Deposits Payable	800
Bond Issuance Costs Payable	24,691
Loan Payable - County	385,441
Intergovernmental Payable - County	30,000
Intergovernmental Payable - State	2,182

Total Liabilities	<u>502,094</u>
-------------------	----------------

Net Assets

Invested in Capital Assets, Net	1,785,262
Restricted - Bond Fund Program Reserves	2,510,612
Unrestricted (Deficit)	<u>(13,076)</u>

Total Net Assets	<u><u>\$4,282,798</u></u>
------------------	---------------------------

See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2011

Operating Revenue	
Rent	\$ 297,753
CVB-Other Monthly Fees	16,171
	<hr/>
Total Operating Revenue	313,924
	<hr/>
Operating Expenses	
Advertising	3,780
Bank Fees	53,511
Condominium	65,916
Dues	915
Insurance	412
Depreciation	37,738
Miscellaneous	126
Postage	65
Professional Services	36,586
Real Estate Taxes	113,805
Travel	121
Trustee Fees	6,000
Supplies	121
	<hr/>
Total Expenses	319,096
	<hr/>
Operating (Loss)	(5,172)
Non-Operating Revenues (Expenses)	
Subsidy-County	25,000
Administrative Fee	41,000
Bond Issuance Fees	12,500
Interest Income	7,367
Interest Payment to State/County	(7,367)
	<hr/>
Total Non-Operating Revenues (Expenses)	78,500
	<hr/>
Change in Net Assets	73,328
Total Net Assets, Beginning of Year	4,209,470
	<hr/>
Total Net Assets, End of Year	<u>\$4,282,798</u>

See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Cash Flows
For the Year Ended December 31, 2011

Cash Flow From Operating Activities

Cash Received from Customers	\$294,934
Cash Payments to Suppliers for Goods and Services	(231,301)
Net Cash Provided by Operating Activities	<u>63,633</u>

Cash Flow From Noncapital Financing Activities

Subsidy Received	25,000
Administrative Fee	16,000
Bond Issuance Fees	10,000
Interest Income	7,367
Interest Expense	(7,367)
Net Cash Provided by Noncapital Financing Activities	<u>51,000</u>

Net Increase in Cash and Cash Equivalents 114,633

Cash and Cash Equivalents, Beginning of Year
(Includes Restricted Bond Fund Program Reserves) 2,838,157

Cash and Cash Equivalents, End of Year
(Includes Restricted Bond Fund Program Reserves) \$2,952,790

Reconciliation of Operating (Loss) to Net Cash
Provided by Operating Activities

Operating (Loss)	(\$5,172)
Depreciation	37,738
Accounts Receivable	(19,340)
Accounts Payable	50,057
Security Deposits Payable	350
Net Cash Provided by Operating Activities	<u><u>\$63,633</u></u>

See accompanying notes to the basic financial statements.

This page intentionally left blank

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lorain County Port Authority (the Authority) was created by the Lorain County Board of Commissioners in 2001 to enhance economic development in Lorain County. The Authority is created in accordance with Section 4582.22 of the Ohio Revised Code.

The Authority is governed by a five-member Board of Directors (the Board) appointed by the Lorain County Board of Commissioners. Each member shall serve for a term of four years, except when a person is appointed to fill a vacancy, which is to be appointed to serve only the unexpired term. Members of the Board are eligible for re-appointment. The Board controls the employment of the Executive Director who is responsible for day-to-day operations.

The Authority's financial reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 "The Reporting Entity". The financial statements include all divisions and operations for which the Authority is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organization other than the Authority itself is included in the financial reporting entity.

As of December 31, 2011, the Authority has a liability to the County in the amount of \$385,441 for past and current operating loans. Under GASB Statement No. 14, this is considered to be a financial burden on the County; also the County can impose its will on the Authority through the appointment of the members of the Board of Directors. Therefore, the Authority is a component unit of the County whose financial statements are discretely presented in the County's financial statements.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. Enterprise funds are used to account for business-like activities. The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

C. Budgetary Process

Ohio Revised Code Section 4582.39 requires the Authority to prepare a budget annually. This budget includes estimated receipts and appropriations and is prepared on the cash basis of accounting.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

D. Cash, Cash Equivalents and Investments

The Ohio Revised Code prescribes allowable deposits and investments. For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair value, which is based on quoted market prices.

E. 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. Buildings and building improvements are depreciated using the straight-line method for a period of 50 years. Machinery and Equipment with a value of \$15,000 or more are depreciated using the straight-line method over 15 years.

F. 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 borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted resources are applied first when an expense is incurred for both restricted and unrestricted assets.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Port Authority, these revenues are primarily rental income, CVB-other monthly fees, and application fees. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Port Authority. Revenues and expenses not meeting those definitions are reported as non-operating.

H. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or from outside contributions of resources restricted to capital acquisition and construction. The Port Authority had no capital contributions during 2011.

I. 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 expected.

**LORAIN COUNTY PORT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The provisions of the Ohio Revised Code govern the investments and deposits of Authority monies. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificate of deposit, savings accounts, money market accounts, the State Treasurer’s Asset Reserve (STAR Ohio) investment pool and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days.

Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Deposits - At December 31, 2011, the bank balance of the Authority’s deposits was \$450,889 Deposits are either (1) insured by the Federal Deposit Insurance Corporation or (2) collateralized by securities specifically pledged by the financial institution to the Authority, or (3) collateralized by the financial institution’s public entity deposit pool.

Investments

As of December 31, 2011, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity Less Than One Year
First American Government Obligation Fund	\$5,402	\$5,402
Intesa Fund LLC	\$2,507,612	\$2,507,612

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. According to the Authority’s policy, investments made by the Treasurer must mature within five years from the date of purchase with an average weighted maturity not to exceed two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poors.

First American Government Obligation Fund	AAAm
Intesa Fund LLC	A-2

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Concentration of Credit Risk: Concentration of credit risk is the possibility of loss attributed to the magnitude of the Authority's investment in a single issuer. One hundred percent of the Authority's investments are in First American Government Obligation Fund. The Authority's policy places no limit on the amount that may be invested in any one issuer.

3. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injury and natural disasters. Through Lorain County, the Authority is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio non-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management programs. The Authority has not had any claims that exceeded insurance coverage.

A surety bond of \$25,000 through Ohio Casualty Insurance Group covers the Board Secretary.

4. 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 purpose of the Bond Fund Program is to further economic development efforts and investment in Lorain 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 \$1,000,000, received in April 2003, which was deposited into the Bond Fund Program Reserve account. The conditional grant from ODOD is for 20 years, with the interest earned on the fund remitted back to ODOD through December 2012. Beginning 2013 and continuing through December 2023, 50 percent of the interest earned is required to be remitted back to ODOD. In December 2001, the Authority received a \$1,500,000 grant from Lorain 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 financial 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 amounts held in the Authority's Bond Fund Program Reserves were \$2,510,612 at December 31, 2011 and are reflected in the Statement of Net Assets.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	<u>1/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/2011</u>
Capital Assets, Being Depreciated:				
Buildings	\$1,592,000	\$0	\$0	\$1,592,000
Building Improvements	295,111	0	0	295,111
Less Accumulated Depreciation:				
Buildings	(62,143)	(31,836)	0	(93,979)
Building Improvements	(1,968)	(5,902)	0	(7,870)
Total Capital Assets, Being Depreciated, net	<u>\$1,823,000</u>	<u>(\$37,738)</u>	<u>\$0</u>	<u>\$1,785,262</u>

6. RELATED PARTY ACTIVITY

The Authority utilizes certain Lorain County employees without reimbursement.

7. LETTER OF CREDIT

On June 27, 2008, the Authority entered into an agreement to increase their Letter of Credit with Lorain National Bank from three million dollars to eight million dollars. The purpose of the Letter of Credit is to supplement the reserves available in the Program Reserve Fund and enable the Authority to issue additional series of bonds under the indenture to finance costs of projects and promote the creation and preservation of jobs and employment opportunities within the County. Due to market conditions and with the intent to enhance the marketability and rating on a bond financed expansion project, the Authority supplemented the existing Letter of Credit with an additional wrapping Letter of Credit with the Federal Home Loan Bank of Cincinnati (FHLB). However, market conditions at that time dictates that the firm pull out of the project. As of December 31, 2011, the Authority has not used the LNB Letter of Credit or the supplemental FHLB Letter of Credit. The Authority has maintained the enhancements with the goal to attract a partnership with another Port Authority, or to attract suitable business attraction/expansion to meet the LCPA core mission of economic development in Lorain County.

8. CONDUIT DEBT

The Authority has issued revenue bonds and certificates of participation to provide financial assistance to governmental and non-profit entities for the acquisition and construction of facilities deemed to be in the public interest. The Authority is not obligated in any manner for repayment of the bonds or certificates of participation. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt also produces additional revenues for the Authority.

As of December 31, 2011, revenue bonds were outstanding from the Authority's Program Bond fund with an original issue amount of \$2,365,000 of which \$1,795,000 remain outstanding as of December 31, 2011. However, the Authority's total remaining reserve dollars from the Letter of Credit are \$5,750,000 or approximately 247% of the outstanding bonds.

This page intentionally left blank.



Dave Yost • Auditor of State

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

Lorain County Port Authority
Lorain County
226 Middle Avenue
Elyria, Ohio 44035

To the Board of Directors:

We have audited the financial statements of the Lorain County Port Authority, Lorain County, Ohio (the Authority) as of and for the year ended December 31, 2011, and have issued our report thereon dated June 27, 2012. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

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 matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2011-01.

We also noted certain matters not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated June 27, 2012.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

June 27, 2012

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011**

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

FINDING NUMBER 2011-01

Investment Requirements – Material Noncompliance

Ohio Rev. Code Section 135.14 (O) (1) states, except as otherwise provided in divisions (O)(2) and (3) of this section, no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision. All brokers, dealers, and financial institutions, described in division (M)(1) of this section, initiating transactions with the treasurer or governing board by giving advice or making investment recommendations shall sign the treasurer's or governing board's investment policy thereby acknowledging their agreement to abide by the policy's contents. All brokers, dealers, and financial institutions, described in division (M)(1) of this section, executing transactions initiated by the treasurer or governing board, having read the policy's contents, shall sign the investment policy thereby acknowledging their comprehension and receipt.

Ohio Rev. Code section 135.14 B(7) states no investment shall be made pursuant to division (B)(7) of this section unless the treasurer or governing board has completed additional training for making the investments authorized by division (B)(7) of this section. The type and amount of additional training shall be approved by the auditor of state and may be conducted by or provided under the supervision of the auditor of state.

The Authority does not have a written, Board approved investment policy and therefore does not have an investment policy filed with the Auditor of State representing the Authority's investing practices (i.e., allowance of commercial papers, banker acceptances, etc). Failure to have a written, Board approved, investment policy filed with the Auditor of State is a violation of the law. Further, any investments entered into by the Authority without the proper requirements met, could be deemed an unallowable investment by the Auditor of State.

In addition, the Executive Director is required by Ohio Revised Code to attend six hours of investment training each year. The Executive Director could only provide evidence that he attended five hours of investment training during fiscal year 2011.

We recommend that the Authority create an investment policy before making investments according to the Ohio Rev. Code and file it with the Auditor of State to maintain compliance with the law over investments. In addition, we recommend that the Executive Director of the Authority attend the required hours of investment training each year.

Official's Response

The LCPA Board has taken the matter under consideration and is in the process along with its legal council to take appropriate measures in order to maintain compliance with the investment policy requirements of the ORC.

On another note, I would suspect that the Trust Indenture governing our investment structure with U.S. Bank naturally anticipates compliance with the ORC on this level in as much as its source of funds is governmental in nature. This is the sole venue of LCPA investment activity and may, more than likely be sufficient as a model for compliance under this finding.

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2011
(Continued)**

FINDING NUMBER 2011-01 (Continued)

Investment Requirements – Material Noncompliance (Continued)

Official's Response (Continued)

Additionally the LCPA Board welcomes the State Auditors recommendation that the Executive Director attend required hours of investment training. Once staffing has been reestablished they will once again request training be completed by its Director. As you may know, the LCPA has recently experienced staffing changes as the Executive Director is no longer with the LCPA. The LCPA Board has undertaken steps to fill this vacancy.

This page intentionally left blank.



Dave Yost • Auditor of State

LORAIN COUNTY PORT AUTHORITY

LORAIN 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 21, 2012