



Dave Yost • Auditor of State

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY
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INDEPENDENT AUDITOR'S REPORT

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information 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, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Lorain County Port Authority, Lorain County, Ohio, as of December 31, 2012, and the change in financial position and where applicable, cash flows, thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* 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 applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2013, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 25, 2013

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(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, 2012. 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, 2012, the assets of the Authority exceeded the liabilities by \$4,323,405.
- Total net position for 2012 increased by \$40,607 or 1.0% which is an increase from 2011, in which net position increased \$73,328 or 1.7% from 2010.
- The Authority's total revenues amounted to \$322,918 in 2012, of which \$257,378 or 79.7% were operating revenues and \$65,540 or 20.3% were non-operating revenues.
- The Authority had \$282,311 in total expenses in 2012, of which \$271,309 or 96.1% were operating expenses and \$11,002 or 3.9% 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 Position – presents information on all the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 Position – has been included to present information showing how the Authority's net position changed during the most recent year. All changes in net position 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.

Statement of Fiduciary Net Position - The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Authority under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Authority's own programs. The Authority has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Authority's agency fund consists of Lorain County Land Reutilization Corp. A Fiduciary Fund statement is on page 10 of this report.

Other Information

Notes to the Basic Financial Statements:

The notes provide additional and explanatory data. They are an integral part of the basic financial statements. Notes to the Basic Financial Statements can be found starting on page 11 of this report.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

FINANCIAL POSITION

The following represents the Authority's financial position for the years ended December 31, 2012 and December 31, 2011:

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

	2012	2011
ASSETS:		
Cash and Cash Equivalents	\$586,695	\$442,178
Accounts Receivable	1,209,265	46,840
Restricted Assets	2,525,233	2,510,612
Capital Assets, Net of Depreciation	1,766,164	1,785,262
Total Assets	6,087,357	4,784,892
LIABILITIES:		
Accounts Payable	87,507	58,980
Security Deposits Payable	2,600	800
Bond Anticipation Note	1,200,000	0
Bond Issuance Costs Payable	0	24,691
Unamortized Premium on Note	20,220	0
Loan Payable - County	391,221	385,441
Intergovernmental Payable - County	30,000	30,000
Intergovernmental Payable - State	7,404	2,182
Judgements Payable	25,000	0
Total Liabilities	1,763,952	502,094
NET POSITION:		
Net Investment in Capital Assets	1,766,164	1,785,262
Restricted - Bond Fund Program Reserves	2,525,233	2,510,612
Unrestricted (Deficit)	32,008	(13,076)
Total Net Position	\$4,323,405	\$4,282,798

2012 was the eleventh year of operations for the Authority. Restricted Assets and Restricted Net Position 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 2012, the Authority's overall financial position increased by \$40,607.

- Total Assets increased \$1,302,465 from 2011 and Total Liabilities increased \$1,261,858 from 2011 due mainly to the addition of the conduit debt.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

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

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

	2012	2011
Operating Revenues	\$257,378	\$313,924
Operating Expenses	(271,309)	(319,096)
Operating Income (Loss)	(13,931)	(5,172)
Non-Operating Revenues	65,540	85,867
Non-Operating Expenses	(11,002)	(7,367)
Change in Net Position	40,607	73,328
Net Position, Beginning of Year	4,282,798	4,209,470
Net Position, End of Year	\$4,323,405	\$4,282,798

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

- Operating Revenues decreased \$56,546 from 2011 due mainly to a reduction in rental income.
- Operating Expenses decreased \$47,787 from 2011 due mainly to reduced condominium expenses.

Due to a slower than expected economy and limited financial resources available to the 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 slowdown in the Authority's ability to issue bond debt. Therefore the Authority has taken its direction into property ownership and management.

Further, a legal opinion has been rendered for the Authority that they can own, buy, sell, and accept donations of real property including but not limited to land and buildings.

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. Lorain County directed all Industrial Revenue Bonds (IRB) to be processed by the Authority beginning midyear 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 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 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 June 2012 quarterly meeting, Patrick J. Metzger was named Executive Director.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2012
(UNAUDITED)**

CAPITAL ASSETS

The Authority's investment in capital assets as of December 31, 2012, amounts to \$1,766,164 (net of accumulated depreciation). This investment in capital assets consists of two buildings and building improvements. The total decrease of \$19,098 in the 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

	2012	2011
Buildings	\$1,466,184	\$1,498,021
Building Improvements	299,980	287,241
Total Capital Assets, Net of Depreciation	\$1,766,164	\$1,785,262

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

Debt

At December 31, 2012, the Authority had outstanding conduit debt of \$1,200,000 in revenue bond anticipation notes. The Authority issued the debt to assist a third party in acquiring real property. The third party is responsible for repaying the debt. The debt is to be primarily paid by the Lorain County Land Reutilization Corp.

Additional information regarding the Authority's conduit debt can be found in Note 8 of this report.

Table 4
Long Term Debt
(As of end of each year)

	2012	2011
Revenue Bond Anticipation Notes	\$1,200,000	\$0

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.

Lorain County Port Authority
Statement of Net Position
As of December 31, 2012

Assets

Current Assets:

Cash and Cash Equivalents	\$586,695
Accounts Receivable	1,209,265

Noncurrent Assets:

Restricted Bond Fund Program Reserves	2,525,233
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Capital Assets:

Depreciable Capital Assets, Net	1,766,164
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Total Assets	<u>6,087,357</u>
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Liabilities

Current Liabilities

Accounts Payable	87,507
Security Deposits Payable	2,600
Bond Anticipation Note	1,200,000
Unamortized Premium on Note	20,220
Loan Payable - County	391,221
Intergovernmental Payable - County	30,000
Intergovernmental Payable - State	7,404
Judgments Payable	25,000

Total Liabilities	<u>1,763,952</u>
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Net Position

Investment in Capital Assets	1,766,164
Restricted - Bond Fund Program Reserves	2,525,233
Unrestricted	32,008

Total Net Position	<u><u>\$4,323,405</u></u>
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See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2012

Operating Revenue	
Rent	\$239,699
Other	2,637
CVB-Other Monthly Fees	15,042
	<hr/>
Total Operating Revenue	257,378
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Operating Expenses	
Advertising	2,510
Bank Fees	56,062
Condominium	32,491
Commercial	4,237
Dues	400
Depreciation	37,769
Judgment Expense	25,000
Miscellaneous	2,825
Postage	82
Professional Services	49,500
Real Estate Taxes	54,421
Trustee Fees	6,000
Supplies	12
	<hr/>
Total Expenses	271,309
	<hr/>
Operating (Loss)	(13,931)
Non-Operating Revenues (Expenses)	
Subsidy-County	25,000
Management Fees	907
Bond Issuance Fees	30,000
Interest Income	9,633
Interest Payment to State/County	(11,002)
	<hr/>
Total Non-Operating Revenues (Expenses)	54,538
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Change in Net Assets	40,607
Total Net Position, Beginning of Year	4,282,798
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Total Net Position, End of Year	\$4,323,405
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See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Cash Flows
For the Year Ended December 31, 2012

Cash Flow From Operating Activities

Cash Received from Customers	\$302,006
Cash Payments to Suppliers for Goods and Services	(209,143)
Other Operating Revenues	2,637
Net Cash Provided by Operating Activities	<u>95,500</u>

Cash Flow From Noncapital Financing Activities

Subsidy Received	25,000
Bond Issuance Fees	30,000
Receivable from another Entity	(1,125)
Proceeds from Bond Anticipation Note	1,218,800
Loans to Other Entities	(1,200,000)
Interest Income	9,633
Net Cash Provided by Noncapital Financing Activities	<u>82,308</u>

Cash Flow From Capital Financing Activities

Acquisition of Capital Assets	(18,670)
Net Cash (Used for) Capital Financing Activities	<u>(18,670)</u>

Net Increase in Cash and Cash Equivalents 159,138

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

Cash and Cash Equivalents, End of Year
(Includes Restricted Bond Fund Program Reserves) \$3,111,928

Reconciliation of Operating Income to Net Cash
Provided by Operating Activities

Operating (Loss)	(\$13,931)
Depreciation	37,769
Accounts Receivable	41,026
Accounts Payable	3,836
Security Deposits Payable	1,800
Judgments Payable	25,000
Net Cash Provided by Operating Activities	<u><u>\$95,500</u></u>

See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Fiduciary Net Position
Fiduciary Fund
December 31, 2012

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$1,195,029
Accounts Receivable	<u>30,232</u>
Total Current Assets	<u>1,225,261</u>
<i>Total Assets</i>	<u><u>\$1,225,261</u></u>
Liabilities	
Current Liabilities:	
Accounts Payable	\$1,215,195
Undistributed Monies	<u>10,066</u>
<i>Total Liabilities</i>	<u><u>\$1,225,261</u></u>

See accompanying notes to the basic financial statements.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 agencies, 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, 2012, the Authority has a liability to the County in the amount of \$391,221 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. Other than the Agency fund transactions, all transactions are accounted for in a single enterprise fund. Enterprise funds are used to account for business-like activities. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The Fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Authority under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Authority's own programs. The Authority does not have trust funds. The agency fund accounts for grant revenue, loan proceeds, and intergovernmental revenue collections that are distributed to the Lorain County Land Reutilization Corp. The Authority's agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

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.

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 Position

Net Investment 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 position is 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 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.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the 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 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 Authority had no capital contributions during 2012.

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.

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, 2012, the bank balance of the Authority's deposits was \$591,549. Deposits are insured by the Federal Deposit Insurance Corporation.

**LORAIN COUNTY PORT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2012**

Investments

As of December 31, 2012, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity Less Than One Year
First American Government Obligation Fund	\$2,525,233	\$2,525,233

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
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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.

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.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012

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 \$2,525,233 at December 31, 2012 and are reflected in the Statement of Net Position.

5. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	<u>01/01/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>12/31/12</u>
Capital Assets, Being Depreciated:				
Buildings	\$1,592,000	\$0	\$0	\$1,592,000
Building Improvements	295,111	18,671	0	313,782
Less Accumulated Depreciation:				
Buildings	(93,979)	(31,837)	0	(125,816)
Building Improvements	(7,870)	(5,932)	0	(13,802)
Total Capital Assets, Being Depreciated, Net	<u>\$1,785,262</u>	<u>(\$19,098)</u>	<u>\$0</u>	<u>\$1,766,164</u>

6. RELATED PARTY ACTIVITY

The Authority utilizes certain Lorain County employees without reimbursement.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

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 dictated that the firm pull out of the project. As of December 31, 2012, 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, 2012, revenue bonds were outstanding from the Authority's Program Bond fund with an original issue amount of \$2,365,000 of which \$1,745,000 remain outstanding as of December 31, 2012. However, the Authority's total remaining reserve dollars from the Letter of Credit are \$6,250,000 or approximately 329.5% of the outstanding bonds.

In November 2012, the Authority issued revenue bond anticipation notes to provide financial assistance to Lorain County Land Reutilization Corp. to pay the costs of acquiring real property and interests therein for the purpose of reclamation, rehabilitation, and reutilization of vacant, abandoned, tax-foreclosed, or other such real property within Lorain County. The Authority is not obligated in any manner for repayment of the notes. However, a liability equal to the conduit debt along with a corresponding receivable from the benefitting third party responsible for its ultimate repayment are reported in the accompanying financial statements. The issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt does not produce additional revenues for the Authority.

As of December 31, 2012, the conduit debt-revenue bond anticipation notes were outstanding with an original issue amount of \$1,200,000 all of which remain outstanding as of December 31, 2012.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

9. MANAGEMENT AGREEMENT

Effective May 25, 2012, the Authority entered into a three year Management Agreement with Lorain County Land Reutilization Corp (LCLRC). The Agreement's term will renew for additional, successive one (1) year periods in perpetuity upon mutual consent of the parties. The Authority shall serve as the Management Company and shall assist the LCLRC in the administration and execution of the Agreement and Plan entered into with the Lorain Board of County Commissioners, Lorain County, Ohio. The Authority shall act as the executive of the LCLRC and will act under the direction of the LCLRC as established by the LCLRC Board through its Code of Regulation, other policies, and specific direction.

10. SUBSEQUENT EVENTS

In April and June 2013, The Authority issued \$40,000,000 and \$35,000,000, respectively, in revenue bonds to provide financial assistance to 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. Therefore, a liability will not be reported in the financial statements. 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.

11. CONTINGENT LIABILITY

The Authority is a defendant in pending litigation on a shared revenue agreement. In the judgment against the Authority, no award amount was specified. However, it is believed that the amount owed by the end of 2012 could be between \$25,000 and \$37,500. \$25,000 was booked as judgments payable. The Authority is appealing the judgment.

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate remaining fund information 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, 2012, and the related notes to the financial statements, and have issued our report thereon dated June 25, 2013.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

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 a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

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, opining 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 we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

Entity's Response to Findings

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.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 25, 2013

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-01

Material Noncompliance - Investment Requirements

Ohio Revised 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 Revised 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 not provide evidence he attended any training in fiscal year 2012.

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

Official's Response

The Lorain County Port Authority (LCPA) intends to meet the Ohio Revised Code's investment compliance policy requirements by having its Board formally adopt said Policy at its next regular meeting. This would include actual policy language which, once approved, will be provided to the LCPA's financial institutions for review and signature.

The Executive Director attended CPIM training provided by the Ohio Treasurer of State's Office on June 5, 2013, and is now compliant with the requisite number of training hours.

LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2012

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2011-001	Investment Requirements – Material Non-Compliance	No	Not Corrected; repeated as Finding Number 2012-01



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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
JULY 9, 2013**