



Dave Yost • Auditor of State

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Fairport Harbor Port Authority
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the Fairport Harbor Port Authority, Lake County, Ohio, (the Port Authority) as of and for the years ended December 31, 2015 and 2014.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements 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 Port 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 Port 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.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statements, the Port Authority prepared these financial statements using the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D), which is an accounting basis other than accounting principles generally accepted in the United States of America (GAAP), to satisfy these requirements.

Although the effects on the financial statements of the variances between the regulatory accounting basis and GAAP are not reasonably determinable, we presume they are material.

Though the Port Authority does not intend these statements to conform to GAAP, auditing standards generally accepted in the United States of America require us to include an adverse opinion on GAAP. However, the adverse opinion does not imply the amounts reported are materially misstated under the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. Our opinion on this accounting basis is in the *Opinion on Regulatory Basis of Accounting* paragraph below.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Port Authority as of December 31, 2015 and 2014, or changes in financial position thereof for the years then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash balances of Fairport Harbor Port Authority, Lake County, Ohio, as of December 31, 2015 and 2014, and its cash receipts and disbursements for the years then ended in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit, described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2016, on our consideration of the Port 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 Port Authority's internal control over financial reporting and compliance.

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
Columbus, Ohio

July 6, 2016

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Fairport Harbor Port Authority
Lake County
Statement of Receipts, Disbursements and
Changes in Fund Balance (Cash Basis)
Governmental Fund Type
For the Year Ended December 31, 2015

	<u>General</u>
Cash Receipts	
Intergovernmental	\$1,238
Charges for Services	62,149
Miscellaneous	1,503
<i>Total Cash Receipts</i>	<u>64,890</u>
Cash Disbursements	
Current:	
General Government	60,221
Capital Outlay	21,348
<i>Total Cash Disbursements</i>	<u>81,569</u>
<i>Net Change in Fund Cash Balances</i>	(16,679)
<i>Fund Cash Balances, January 1</i>	<u>95,885</u>
Fund Cash Balances, December 31	
Unassigned	79,206
<i>Fund Cash Balances, December 31</i>	<u>\$79,206</u>

Fairport Harbor Port Authority
 Lake County
*Statement of Receipts, Disbursements and
 Changes in Fund Balance (Cash Basis)*
 Governmental Fund Type
 For the Year Ended December 31, 2014

	General
Cash Receipts	
Intergovernmental	\$1,238
Charges for Services	65,680
Miscellaneous	4,121
<i>Total Cash Receipts</i>	71,039
Cash Disbursements	
Current:	
General Government	58,056
Capital Outlay	15,209
<i>Total Cash Disbursements</i>	73,265
<i>Net Change in Fund Cash Balances</i>	(2,226)
<i>Fund Cash Balances, January 1</i>	98,111
Fund Cash Balances, December 31	
Unassigned	95,885
<i>Fund Cash Balances, December 31</i>	\$95,885

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Authority

The constitution and laws of the State of Ohio establish the rights and privileges of the Fairport Harbor Port Authority, Lake County, Ohio, (the Port Authority) as a body corporate and politic. The Port Authority operates under the direction of a five-member Board of Directors, appointed by the Mayor with the consent of the Council of the Village of Fairport Harbor. The Port Authority is responsible for the safe and efficient operation and maintenance of the Fairport Harbor Port Authority.

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

B. Accounting Basis

These financial statements follow the accounting basis permitted by the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D). This basis is similar to the cash receipts and disbursements accounting basis. The Port Authority recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

C. Deposits and Investments

The Port 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.

D. Property, Plant, and Equipment

The Port Authority records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

E. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the Port Authority must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

1. Nonspendable

The Port Authority classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Fund Balance (Continued)

2. Restricted

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

3. Committed

The Board can *commit* amounts via formal action (resolution). The Port Authority must adhere to these commitments unless the Board amend the resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

4. Assigned

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by the Board or a Port Authority official delegated that authority by resolution, or by State Statute.

5. Unassigned

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The Port Authority applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

2. DEPOSITS

The Port Authority maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits at December 31 was as follows:

	<u>2014</u>	<u>2015</u>
Demand deposits	<u>\$95,885</u>	<u>\$79,206</u>

Deposits: Deposits are insured by the Federal Depository Insurance Corporation.

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2015 AND 2014
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ended 2015 and 2014 follows

2015 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$79,207	\$64,890	(\$14,317)

2015 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$83,791	\$81,569	\$2,222

2014 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$65,000	\$71,039	\$6,039

2014 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$ 80,000	\$ 73,265	\$ 6,735

4. RETIREMENT SYSTEM

The Port Authority's full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plan. The Ohio Revised Code prescribes the Plan's retirement benefits, including postretirement healthcare and survivor and disability benefits to participants.

The Ohio Revised Code also prescribes contribution rates. For 2015 and 2014, OPERS members contributed 10% of their gross salaries and the Port Authority contributed an amount equaling 14% of participants' gross salaries. The Port Authority has paid all contributions required through December 31, 2015.

5. RISK MANAGEMENT

Commercial Insurance

The Port Authority has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Errors and omissions.

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

Fairport Harbor Port Authority
Lake County
22 Third Street
Fairport Harbor, Ohio 44077

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 cash balances, receipts, and disbursements by fund type of the Fairport Harbor Port Authority, Lake County, Ohio, (the Port Authority) as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements and have issued our report thereon dated July 6, 2016, wherein we noted the Port Authority followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Port 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 opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Port 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 Port 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. Therefore, unidentified material weaknesses or significant deficiencies may exist. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a significant deficiency. We consider finding 2015-001 to be a significant deficiency.

Compliance and Other Matters

As part of reasonably assuring whether the Port 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

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 Port Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Port Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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
Columbus, Ohio

July 6, 2016

FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY

SCHEDULE OF FINDINGS
DECEMBER 31, 2015 AND 2014

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

FINDING NUMBER 2015-001

Significant Deficiency

Receipt cycle internal controls are necessary to help ensure receipts collected by an entity are properly posted to the accounting system and timely deposited with the entity's financial institution. Basic receipt internal controls should include, but not be limited to, use of pre-numbered receipts, batch report summaries, and daily reconciliations of deposit tickets to receipt postings. Additionally, the process and records should be periodically reviewed by individuals independent of the receipt process to ensure it is functioning properly.

The Port Authority collects receipts for various items, including but not limited to, boat launch fees, parking fees, dockage fees, and ice and beverages sales. Pre-numbered receipts were not issued for all fees collected. When receipts were issued, the receipts were not always issued in numeric sequence. Additionally, a daily log or summary of receipts collected was not maintained and there was no daily reconciliation maintained showing total individual receipts collected to the amounts deposited with the bank.

Failure to implement internal controls over receipt collections could result in improper transaction posting, financial statement errors, theft and/or loss of public funds.

The Port Authority should establish and implement receipt control procedures. These procedures, should include, but not be limited to, issuance of duplicate pre-numbered receipts for all receipts collected, maintenance of a daily receipt log or summary, and reconciliation of the daily receipt log/summary to the bank deposit ticket.

A similar issue was included in the Port Authority's prior financial statement audit's management letter.

Officials' Response: The Port Authority has implemented a process where pre-numbered duplicate receipts are being issued as receipts are collected. Additionally, a spreadsheet was implemented to serve as a daily log and summary of receipts collected to coincide with the bank deposit tickets.

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FAIRPORT HARBOR PORT AUTHORITY

LAKE 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 2, 2016**