

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
FINANCIAL STATEMENTS
DECEMBER 31, 2010**



Dave Yost • Auditor of State

Board of Directors
Warren County Port Authority
406 Justice Drive
Lebanon, Ohio 45036

We have reviewed the *Report of Independent Accountants* of the Warren County Port Authority, Warren County, prepared by Joseph Decosimo and Company, LLC, for the audit period January 1, 2010 through December 31, 2010. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Warren County Port Authority is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Dave Yost".

Dave Yost
Auditor of State

March 21, 2013

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**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Warren County Port Authority
Warren County, Ohio

We have audited the accompanying basic financial statements of the business-type activities of the Warren County Port Authority (the "Port Authority"), as of and for the year ended December 31, 2010, as listed in the table of contents. These financial statements are the responsibility of the Port 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Port entity's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Warren County Port Authority, as of December 31, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9 to the financial statements, the Port Authority's net asset balance as of January 1, 2010, has been adjusted to remove certain capital assets no longer owned by the Port Authority, to record a receivable for amounts owed to the Port Authority, and to correct a payable. The net effect of this adjustment was to increase the beginning net asset balance by \$6,656,754.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2012, 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. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting 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 assurance.

Joseph Decosimo and Company, LLC

Cincinnati, Ohio
December 17, 2012

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(UNAUDITED)

The discussion and analysis of the Warren County Port Authority (the "Port Authority") financial performance provides an overall review of the financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

Financial Highlights

Key financial highlights for 2010 are as follows:

- 2010 provided the Port Authority with \$18,295 (down from \$101,118 fiscal year 2009) in administrative fees from projects.
- The operating ending cash and cash equivalents balance was \$137,046, which was a 45% increase from the 2009 ending balance, resulting from two years of administrative fees on the VH Monroe project; although one year was reported as receivable for 2009.
- Operating expenses were \$269,780, which were significantly greater than operating revenues.
- The two construction projects reported a combined \$343,232 in tax increment revenue. This revenue is the underlying revenue source to repay the debt obligations.

Using this Financial Report

This financial report contains the basic financial statements of the Port Authority, as well as the Management's Discussion and Analysis and notes to the basic financial statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows. As the Port Authority reports its operations using enterprise fund accounting, all financial transactions and accounts are reported as one activity, therefore, the entity wide and fund presentation information are the same.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(UNAUDITED)

Statement of Net Assets

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

Net assets are reported in three broad categories (as applicable):

Net assets, Invested in Capital Assets, Net of Related Debt: This component of net assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowing that are attributable to the acquisition, construction or improvement of those assets.

Restricted Net Assets: This component of net assets consists of restricted assets which constraints are placed on assets by grantors, contributors, laws, regulations, etc.

Unrestricted Net Assets: Consists of net assets that do not meet the definition of "Net Assets Invested in Capital Assets, Net of Related Debt" or "Restricted Net Assets".

Table 1 provides a comparison of the Port Authority's net assets for 2009 to 2010.

Table 1 - Net Assets

	<As Restated>	
	2009	2010
Assets:		
Current assets	\$3,245,567	\$2,607,330
Intergovernmental receivable – long term	15,600,000	15,375,000
Deferred charges	618,055	589,878
Depreciable capital assets, net	2,496,940	2,434,515
Total Assets	21,960,562	21,006,723
Liabilities:		
Current liabilities	195,792	317,385
Long term liabilities	15,600,000	15,375,000
Total Liabilities	15,795,792	15,692,385
Net Assets:		
Restricted for Debt Service	2,326,638	1,909,813
Restricted for Capital Projects	774,689	327,176
Unrestricted	3,063,443	3,077,349
Total Net Assets	\$6,164,770	\$5,314,338

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
(UNAUDITED)

For 2010, the Port Authority reported an amount due within one year for the Cincinnati Premium Outlets (CPO) special obligation bonds payable, which is why current liabilities significantly increased. Current assets decreased as the cash balance in the bond trust accounts were used either for the project (CPO) or paid interest on the bonds (VH Monroe). The Port Authority's large net assets are a direct result of the intergovernmental receivable being offset with the long term liabilities associated with the Port Authority. The Port Authority's debt obligations are secured by several sources that help eliminate the risk associated with not completely owning the assets.

Table 2 compares the changes in net assets for the year 2009 and 2010.

Table 2 - Changes in Net Assets

	<As Restated> 2009	2010
Operating Revenues:		
Local contributions	\$50,000	\$0
Administrative Fees	101,118	18,295
Other Local Government	15,600,000	0
Interest and Other Revenue	108	1,572
Total Operating Revenues	<u>15,751,226</u>	<u>19,867</u>
Operating Expenses:		
Legal fees	34,170	39,259
Accounting	1,639	11,306
Professional Services	8,181	14,622
Other General Administration	11,314	138,175
Insurance	4,829	3,993
Intergovernmental	53,709	0
Depreciation	0	62,425
Total Operating Expenses	<u>113,842</u>	<u>269,780</u>
Operating Income (Loss)	<u>15,637,384</u>	<u>(249,913)</u>
Nonoperating Revenues (Expenses):		
Interest Revenue	26,629	1,978
Local Contributions	284,985	343,232
State Grants	700,000	0
Interest Expense	(894,200)	(945,729)
Total Nonoperating Revenues (Expenses)	<u>117,414</u>	<u>(600,519)</u>
Special Item	<u>(8,943,246)</u>	<u>0</u>
Change in Net Assets	6,811,552	(850,432)
Net Assets, Beginning of Year	<u>(646,782)</u>	<u>6,164,770</u>
Net Assets, End of Year	<u>\$6,164,770</u>	<u>\$5,314,338</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010
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The Port Authority saw administrative fee activity decrease related to the administrative fee on prior debt issues and new debt issues during 2010 as 2009 the Port Authority reported two years of fees on the VH Monroe project. The Port Authority also received about \$8,000 in connection with the YMCA conduit financing from the Butler County Port Authority as the actual construction project occurred in Warren County but also involved refinancing of Butler County debt. During 2010, the Port Authority received an administrative fee on the E-Beam conduit bond offering.

The Port Authority's expenses increased as the legal expenses on project related activity were significantly higher and the related expense for the administrative fee was increased.

Capital Assets

The Port Authority recognized net land improvements of \$2,434,515 at December 31, 2010. For more information on the Port Authority's depreciable capital assets, net see note 5.

Debt

The Port Authority was able to finance, through a conduit offering for E-Beam, \$6,500,000 for building and equipment expansion. For more information on the Port Authority's debt see note 7.

Contacting the Port Authority

This financial report is designed to provide a general overview of the finances of the Warren County Port Authority and to show the Port Authority's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Warren County Port Authority, 406 Justice Drive, Lebanon, Ohio 45036 or by calling (513) 695-2090.

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
STATEMENT OF NET ASSETS
DECEMBER 31, 2010**

ASSETS:

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 137,046
Restricted Cash and Cash Equivalents	2,236,989
Accounts Receivable	8,295
Intergovernmental Receivable	225,000
TOTAL CURRENT ASSETS	<u>2,607,330</u>

NON CURRENT ASSETS:

Intergovernmental Receivable	15,375,000
Deferred Charges	589,878
Depreciable Capital Assets, Net	2,434,515
TOTAL CURRENT ASSETS	<u>18,399,393</u>

TOTAL ASSETS	<u><u>21,006,723</u></u>
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LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	12,175
Accrued Interest Payable	80,210
Public Improvement Bonds - Due in One Year	225,000
TOTAL CURRENT LIABILITIES:	<u>317,385</u>

LONG TERM LIABILITIES:

Public Improvement Bonds	15,375,000
TOTAL LONG TERM LIABILITIES:	<u>15,375,000</u>

TOTAL LIABILITIES	<u>15,692,385</u>
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NET ASSETS:

Restricted for Debt Service	1,909,813
Restricted for Capital Projects	327,176
Unrestricted	3,077,349
TOTAL NET ASSETS	<u><u>\$ 5,314,338</u></u>

See accompanying notes to the financial statements

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2010**

OPERATING REVENUES:

Administrative Fees	\$	18,295
Interest		85
Other Revenues		1,487
		19,867
Total Operating Revenues		19,867

OPERATING EXPENSES:

Insurance		3,993
Legal Fees		39,259
Accounting		11,306
Professional Services		14,622
Other General Administration		138,175
Depreciation		62,425
		269,780
Total Operating Expenses		269,780
Operating Loss		(249,913)

NONOPERATING REVENUES (EXPENSES):

Interest Revenue		1,978
Local Contributions		343,232
Interest Expense		(945,729)
		(600,519)
Nonoperating Expenses, net		(600,519)

CHANGE IN NET ASSETS

		(850,432)
Net Assets Beginning of Year - restated		6,164,770
Net Assets End of Year	\$	5,314,338

See accompanying notes to the financial statements

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2010**

Cash flows from operating activities:	
Cash received from customers	\$ 60,000
Cash payments to suppliers for goods and services	(310,762)
Other miscellaneous revenue	1,572
Net cash used for operating activities	<u>(249,190)</u>
Cash flows from noncapital financing activities:	
Local contributions	343,232
Net cash provided by noncapital financing activities	<u>343,232</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid on all debt	(917,552)
Net cash provided by capital and related financing activities	<u>(917,552)</u>
Cash flows from investing activities:	
Net Interest received	1,978
Net cash used in investing activities	<u>1,978</u>
Net decrease in cash and cash equivalents	(821,532)
Cash and cash equivalents at beginning of year	3,195,567
Cash and cash equivalents at end of year	<u>\$ 2,374,035</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	(249,913)
Depreciation expense	62,425
Adjustments to reconcile operating loss to net cash used for operating activities	
Decrease in accounts receivable	41,705
Decrease in accounts payable	<u>(103,407)</u>
Net cash used for operating activities	<u>\$ (249,190)</u>

See accompanying notes to the financial statements

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WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

1. DESCRIPTION OF THE REPORTING ENTITY

The Warren County Port Authority (the “Port Authority”) is a body, corporate and politic, established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority was established in February 2007 pursuant to section 4582.22 of the Ohio Revised Code by resolution of Warren County. The seven voting member Board of Directors directs the Port Authority.

The Port Authority provides services that are enumerated in Sections 4582.21 to 4582.29 of the Ohio Revised Code. The services include but are not limited to the power to purchase, construct, reconstruct, enlarge, improve, equip, develop, sell, exchange, lease, convey other interest in, and operate Port Authority facilities.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all asset and all liabilities are included on the statement of net assets. Equity (i.e., net assets) consists of retained earnings. The statement of revenues, expenses and changes in net assets present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is utilized for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred.

C. Budgetary Data

Ohio Revised Code Section 4582.13 requires the Port Authority annually prepare a budget. No further approvals or actions are required under Section 4582 of the Ohio Revised Code.

D. Cash and Cash Equivalents

The Port Authority maintains a cash management program whereby cash is deposited with a banking institution in Warren County. The agreements restrict activity to certain deposits. These deposits are stated at cost which approximates market value. Investment procedures are restricted by the provisions of the Ohio Revised Code.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

For purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less and funds within the cash management pool are considered to be cash equivalents. Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Non-participating investment contracts, such as certificates of deposit, are reported at cost. During fiscal year 2010, investments were limited to U.S. Treasury bills and money market mutual funds.

Interest revenue earned during 2010 was \$2,063.

E. Restricted Cash

The Port Authority holds various deposits in trust, in accordance with the provision of its bond agreements, to fund debt service requirements and certain capital projects. The balance held in restricted cash accounts is \$2,236,959 as of December 31, 2010.

F. Capital Assets

Capital assets generally result from expenses related to construction projects. These assets are reported on the statement of net assets. All capital assets are reported at cost (or estimated historical cost) and updated for additions and deletions during the year. The Port Authority capitalizes improvements related to construction projects as construction in progress. The Port Authority depreciates land improvements on a straight line based over a forty year period. The Port Authority has no capital asset policy and has no other reported capital assets.

G. Intergovernmental Receivable

Receivables on the Port Authority's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable systematic method of determining their existence, completeness, valuation and collectibility. The Port Authority did have an intergovernmental receivable at December 31, 2010 from the City of Monroe in connection with the special assessment assigned the VH Monroe project as collateral to pay the Port Authority's public improvement bonds.

H. Organizational Costs

Organization costs were expensed during the fiscal year as the Port Authority incurred minimum expenses in organizing and would be considered immaterial to capitalize and amortize over a forty year period.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly at the Port Authority's primary mission. For the Port Authority, operating revenues include intergovernmental contributions (nothing for received in current year) to fund operations and administrative fees earned in connection with the projects. Operating expenses are necessary costs incurred to support the Port Authority's primary mission, including depreciation.

Non-operating revenues and expenses are those that are not generated directly by the Port Authority's primary mission. Various state grants, local government contributions, interest income and expenses comprise the non-operating revenues and expenses of the Port Authority.

J. Accrued Liabilities

In general, payables and accrued liabilities are reported as obligations regardless of whether they will be liquidated with current resources.

Long term debt and other related financing amounts are reported as a liability or deferred assets on the statement of net assets.

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation and net of related debt. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Port Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

L. Subsequent Events

The Port Authority has evaluated subsequent events for potential recognition and disclosure through December 17, 2012, the date the financial statements were available to be issued.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

3. DEPOSITS AND INVESTMENTS

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

Deposits

At fiscal year-end, the carrying value of the Port Authority’s deposits was \$137,046 and the bank balance was \$136,595. All of the Port Authority’s deposits were insured by federal depository insurance.

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

Investments

As of December 31, 2010, the Port Authority had the following investments.

Categorized Investments	Less than One Year	Credit Rating
Money Market Mutual Funds	\$2,236,989	S&P – AAAM

Interest Rate Risk - The Port Authority has no investment policy that addresses interest rate risk. State statute requires that an investment mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Port Authority, and that an investment must be purchased with the expectation that it will be held to maturity.

Credit Risk - The Port Authority has no investment policy that would further limit its investment choices.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Port Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Port Authority has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

3. DEPOSITS AND INVESTMENTS (continued)

Concentration of Credit Risk - The Port Authority places no limit on the amount it may invest in any one issuer. The Port Authority has all of its investments in Money Market Mutual funds due to the current interest rate environment. This is the only investment of the Port Authority greater than five percent.

4. RECEIVABLES

Receivables at December 31, 2010, consisted of revenue sharing administration fees and other contributions.

5. CAPITAL ASSETS

A summary of the changes in capital assets during the year ended December 31, 2010, follows:

	Restated Balance 12/31/2009	Increases	Decreases	Balance 12/31/2010
Capital Assets, being depreciated				
Land Improvements – Retention Pond	\$2,496,940	\$0	\$0	\$2,496,940
Accumulated Depreciation	0	(62,425)	0	(62,425)
Total Capital Assets	<u>\$2,496,940</u>	<u>(\$62,425)</u>	<u>\$0</u>	<u>\$2,434,515</u>

6. RISK MANAGEMENT

The Port Authority is covered by public official liability insurance with Darwin Select Insurance Company. Coverage with a private carrier provides bonding, liability insurance on the \$1,000,000 maximum per claim and in aggregate. There is no general liability coverage as the Port Authority does not maintain a separate place of business or have employees to insure.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

7. LONG TERM OBLIGATIONS

A summary of the changes in long-term obligations during the year ended December 31, 2010 follows:

	Balance 12/31/2009	Increase	Decrease	Balance 12/31/2010	Due within one year
Project Improvement Bonds	\$10,000,000	\$0	\$0	\$10,000,000	\$0
Special Obligations Bonds	5,600,000	0	0	5,600,000	225,000
Total	\$15,600,000	\$0	\$0	\$15,600,000	\$225,000

The project improvement bonds were issued at an interest rate between 7.00 and 7.50 percent on September 24, 2008. The debt was issued for the purpose of constructing street improvements, utilities and a storm water control system in a commercial development. The special obligation bonds were issued at an interest rate between 3.00 and 5.125 percent on May 27, 2009. The debt was issued for the purpose of constructing street improvements around a new retail development in the western portion of Warren County. The following are schedules of future debt service requirements to maturity at December 31, 2010.

Project Improvement Bonds			
Years	Principal	Interest	Total
2011	\$0	\$724,575	\$724,575
2012	0	724,575	724,575
2013	0	724,575	724,575
2014	0	724,575	724,575
2015	0	724,575	724,575
2016-2020	1,035,000	3,553,925	4,588,925
2021-2025	2,275,000	2,963,125	5,238,125
2026-2030	3,185,000	2,046,575	5,231,575
2031-2034	3,505,000	681,000	4,186,000
Totals	\$10,000,000	\$12,867,500	\$22,867,500

Special Obligations Bonds			
Years	Principal	Interest	Total
2011	\$225,000	\$237,950	\$462,950
2012	230,000	231,200	461,200
2013	240,000	224,300	464,300
2014	245,000	217,100	462,100
2015	255,000	209,136	464,136
2016-2020	1,410,000	898,156	2,308,156
2021-2025	1,735,000	572,074	2,307,074
2026-2028	1,260,000	129,650	1,389,650
Totals	\$5,600,000	\$2,719,566	\$8,319,566

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
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DECEMBER 31, 2010

8. PROJECTS

VH Monroe Special Assessment Project

The Port Authority has worked with the City of Monroe and VH Monroe to partner with the parties to provide assistance to the project through a special assessment note and bond issuance that occurred in 2008. The VH Monroe project will provide for large commercial/industrial development on the western edge of Warren County in the City of Monroe. The VH Monroe project is located on the southeastern corner of State Route 63 and Interstate 75. The Port Authority's role was necessary to help move this project forward allowing the retention pond and some other public infrastructure to be completed by the developer. The project is located in a tax increment financing district and CRA area for the City of Monroe. The City of Monroe has pledged the special assessment receipts as part of the collateral to pay the Port Authority's future debt service obligations. Based on an initial analysis done, the Port Authority is expected to receive \$15,600,000 in contributions from the City of Monroe for this project from those receipts. The intergovernmental receivable will be reduced by the annual payments although the special assessment receipts could vary since they are certified annually based on expected payments in lieu of taxes for each year.

Cincinnati Premium Outlets

The Port Authority has worked with the City of Monroe and Chelsea Properties to provide financing on the local infrastructure improvements around the Cincinnati Premium Outlets Center (the "Center") and some of the connecting roadways. The Center opened in the fall of 2009 and has provided Warren County with substantial new retail development for the area. The Center is located on the southeastern corner of State Route 63 and Interstate 75. The Port Authority's role was necessary to help finance the project as the City of Monroe had implemented a special assessment for the project and needed the Port Authority to issue the debt for the project. The project was backed financially by tax increment financing, then the special assessment payments and then the general obligation of the City of Monroe.

E-Beam Services

The Port Authority worked with E-Beam Services to help facilitate the use of economic recovery zone facility bonds for the building expansion and related equipment needs. The conduit debt financing closed on August 31, 2010 for \$6,500,000, which is still outstanding at December 31, 2010. The project is completely backed and secured through E-Beam Services and merely reported as a conduit debt issued through the Port Authority.

WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2010

9. PRIOR PERIOD ADJUSTMENT AND CORRECTION OF AN ERROR

The Port Authority identified a correction of an error during 2010. The Port Authority had continued to recognize \$11,475,768 of construction in progress assets under construction relating to the VH Monroe and Chelsea Properties projects. During the assessment of the project, it was determined that during 2009, approximately \$8,836,832 in the assets had already been dedicated to the City of Monroe (the City), wherein the City had taken ownership of the assets. As part of this transaction, the City had contributed a \$2,496,940 retention pond that would remain with the Port Authority. In closing this transaction, the City, via various agreements, implicitly guaranteed the \$15,600,000 in project obligations held by the Port Authority, resulting in a due from the City receivable for a corresponding amount. The opening net assets, based on this information, were required to be restated as follows:

	Net Assets 12/31/2009
Net Assets, as Previously Reported	(\$491,984)
Receivable from City of Monroe	15,600,000
Correction to Accounts Payable	(106,414)
Removal of Capital Assets	(8,836,832)
Net Assets, Restated	\$6,164,770

10. INTERGOVERNMENTAL RECEIVABLE

In closing projects relating to the VH Monroe and Chelsea Properties, the City of Monroe, via various agreements, implicitly guaranteed the \$15,600,000 in project obligations held by the Port, resulting in a due from the City of Monroe receivable for a corresponding amount. The balance due from the City of Monroe as of December 31, 2010 was \$15,600,000.

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

**REPORT ON INTERNAL
CONTROL AND COMPLIANCE**

December 31, 2010

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Warren County Port Authority
Warren County, Ohio

We have audited the financial statements of the business-type activities of the Warren County Port Authority (the "Port Authority") as of and for the year ended December 31, 2010, which comprise the Port Authority's basic financial statements and have issued our report thereon dated December 17, 2012. That report contained a modification to the opinion to state that the Port Authority's net asset balance as of January 1, 2010, has been adjusted to remove certain capital assets no longer owned by the Port Authority, to record a receivable to amounts due to the Port Authority, and to correct a payable. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Port Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Port 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 expressing an opinion on the effectiveness of the Port Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2010-02 to be a material weakness.

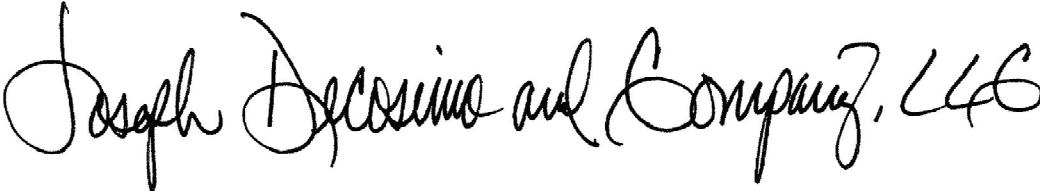
A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as finding 2010-01 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are described in the accompanying schedule of findings and responses as finding 2010-01.

The Port Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Port Authority's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Directors and others within the Port Authority and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Joseph Decasimo and Company, LLC". The signature is written in a cursive, flowing style.

Cincinnati, Ohio
December 17, 2012

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2010

FINDING NUMBER 2010-01 - Significant Deficiency and Compliance Citation - Budget adoption in accordance with Ohio Rev. Code §4582.02

CRITERIA

Ohio Rev. Code §4582.02 (ORC §4582.02) states that although a taxing unit that does not levy a tax is not a taxing unit for purposes of Ohio Revised Code, Chapter 5705, a Port Authority is still required, on or before the fifteenth day of July each year, to adopt an operating budget for the ensuing fiscal year.

CONDITION

During our audit, it was noted that the Port Authority did not adopt an operating budget for 2010, nor did it establish appropriations or estimated receipts.

CAUSE

Controls are not in place to ensure budget adoption as prescribed by the ORC §4582.02.

EFFECT

Lack of appropriate oversight may lead to the Port Authority operating at a deficit.

RECOMMENDATION

Management should develop policies and procedures to ensure annual budget adoption in compliance with the requirements of the ORC §4582.02.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

During 2011, we implemented procedures designed to ensure that an annual board approved budget would be adopted in accordance with the requirements of ORC §4582.02.

FINDING NUMBER 2010-02 - Material Weakness - Uncorrected Material Misstatement of Beginning Net Assets

CRITERIA

An entity's internal control over financial reporting should be designed to prevent or detect and correct misstatements in the financial statement assertions.

CONDITION

The Port Authority's January 1, 2010, net asset balance was restated to remove certain capital assets no longer owned by the Port Authority, to record a receivable for amounts due to the Port Authority, and correct a payable. The net impact on opening net assets is as follows:

Net assets, as previously reported	\$ (491,984)
Receivable from City of Monroe	15,600,000
Correction to accounts payable	(106,414)
Removal of capital assets	<u>(8,836,832)</u>
Net assets, restated	<u>\$ 6,164,770</u>

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended December 31, 2010

CAUSE

The Port Authority's system of internal controls was not designed properly to ensure that this error was identified and corrected in a timely fashion.

EFFECT

Failure to design and implement an appropriate system of internal controls adequate to ensure that all financial transactions entered into by the Port Authority are reflected in the Port Authority's financial statements could lead to additional financial statement misstatements in the future.

RECOMMENDATION

We recommend that the Port Authority review and update its system of internal controls to ensure that the financial impact of agreements entered into by the Port Authority are properly reflected in the financial statements of the Port Authority.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS

We are monitoring the activity related to recognition of accounts payable and related project capital asset activity to verify the transactions are posted and updated as necessary. The receivable from the City of Monroe was not originally included based on the structure of the financing documents. The receivable was evaluated more thoroughly this year and it was determined that ultimately the underlying special assessment revenue (intergovernmental receivable) is necessary to pay the current debt service obligations and should be recorded.

**WARREN COUNTY PORT AUTHORITY
WARREN COUNTY, OHIO**

SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2010

Finding Number	Finding Summary	Fully Corrected?	Not Corrected; Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid
2009-001	The Port Authority did not adopt an operating budget, nor did it establish appropriations or estimated receipts, in accordance with Ohio Revised Code, §4582.02.	No	Not Corrected - reissued as finding 2010-01



Dave Yost • Auditor of State

WARREN COUNTY PORT AUTHORITY

WARREN 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
APRIL 2, 2013