

Lawrence County Port Authority

Regular Audit

For the Year Ended December 31, 2017



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Dave Yost • Auditor of State

Board of Trustees
Lawrence County Port Authority
350 N. 5th St
Ironton, OH 45638

We have reviewed the *Independent Auditor's Report* of the Lawrence County Port Authority, Lawrence County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2017 through December 31, 2017. 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 Lawrence County Port Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost
Auditor of State

November 8, 2018

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Lawrence County Port Authority

Table of Contents
For the Year Ended December 31, 2017

Title	Page
Independent Auditor's Report.....	1
Prepared by Management:	
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Statement of Net Position	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows.....	9
Notes to the Financial Statements	10
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	18

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Independent Auditor's Report

Board of Directors
Lawrence County Port Authority
350 North 5th Street
Ironton, Ohio 45638

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lawrence County Port Authority, (the Port Authority), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 Lawrence County Port Authority, as of December 31, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with 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 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2018 on our consideration of the Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the Port Authority's 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.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

September 28, 2018

Introduction

The discussion and analysis of the Lawrence County Port Authority's financial performance provides an overview of the Port Authority's financial performance as a whole for the year ended December 31, 2017. 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.

Financial Highlights

Key financial highlights for the year ended December 31, 2017 are as follows:

- Total assets decreased \$275,454 or 4.22%, between 2017 and 2016. Total liabilities decreased \$296,316, or 7.25%, between 2017 and 2016. Total net position increased \$20,862, or .86%, between 2017 and 2016.
- Total operating revenues decreased \$682,025 or 36.2% between 2017 and 2016. Total operating expenses decreased \$665,928, or 37.8%, between 2017 and 2016.

Using this Annual 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 position, statement of revenues, expenses and changes in net position, 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 the fund presentations information is the same.

Statement of Net Position

The statement of net position answers the question, "How did we do financially during the year?" This statement include all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and the economic resources focus, which is similar to the accounting used by 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.

This statement reports the Port Authority's net position, however, in evaluating the overall position and financial viability of the Port Authority, non-financial information, such as the condition of the Port Authority's capital assets, will also need to be evaluated.

Table 1 provides a summary of the Port Authority's net position for 2017 and 2016.

Table 1
Net Position

	2017	2016	Change
Assets:			
Current assets	\$ 632,247	\$ 837,929	\$ (205,682)
Capital assets	2,640,946	2,643,148	(2,202)
Non-current assets (other than capital)	<u>2,970,545</u>	<u>3,038,115</u>	<u>(67,570)</u>
 Total assets	 <u>6,243,738</u>	 <u>6,519,192</u>	 <u>(275,454)</u>
 Liabilities:			
Current liabilities	615,346	512,826	102,520
Long term liabilities	<u>3,175,406</u>	<u>3,574,242</u>	<u>(398,836)</u>
 Total liabilities	 <u>3,790,752</u>	 <u>4,087,068</u>	 <u>(296,316)</u>
 Net position:			
Net investment in capital assets	2,003,296	1,937,849	65,447
Unrestricted	<u>449,690</u>	<u>494,275</u>	<u>(44,585)</u>
 Total net position	 <u>\$ 2,452,986</u>	 <u>\$ 2,432,124</u>	 <u>\$ 20,862</u>

The decrease in total assets between 2017 and 2016 was primarily due to a decrease in the cash and grants receivable balances. The decrease in long-term liabilities between 2017 and 2016 was due to scheduled debt payments that were made during the year combined with a decrease in unearned revenue.

Table 2 provides a summary of changes in the Port Authority's net position for 2017 and 2016.

Table 2
Changes in Net Position

	2017	2016	Change
<i>Operating revenues:</i>			
Grants/reimbursement contracts	\$ 780,517	\$ 1,300,151	\$ (519,634)
Service fees	293,966	317,445	(23,479)
Contributions	-	453	(453)
In-kind contributions	126,945	265,404	(138,459)
<i>Total operating revenues</i>	<u>1,201,428</u>	<u>1,883,453</u>	<u>(682,025)</u>
<i>Operating expenses:</i>			
Professional fees	25,534	19,239	6,295
Consultants/ contractual	628,463	1,057,515	(429,052)
Space cost	136,855	139,387	(2,532)
Insurance	32,705	9,389	23,316
Equipment lease and maintenance	8,851	9,300	(449)
Taxes	3,004	3,986	(982)
Supplies	5,597	672	4,925
Depreciation	115,710	147,119	(31,409)
Amortization	379	379	-
Grant expenses - pass through	87,197	322,917	(235,720)
Other	49,210	49,530	(320)
<i>Total operating expenses</i>	<u>1,093,505</u>	<u>1,759,433</u>	<u>(665,928)</u>
<i>Non-operating revenues/(expenses):</i>			
Deferred developer fee income	21,000	21,000	-
Loss on sale of assets	(82,508)	-	(82,508)
Interest income	92,128	100,647	(8,519)
Interest expense	(117,681)	(126,640)	8,959
<i>Total non-operating revenues/(expenses)</i>	<u>(87,061)</u>	<u>(4,993)</u>	<u>(82,068)</u>
<i>Change in net position</i>	20,862	119,027	(98,165)
<i>Beginning net position</i>	<u>2,432,124</u>	<u>2,313,097</u>	<u>119,027</u>
<i>Ending net position</i>	<u>\$ 2,452,986</u>	<u>\$ 2,432,124</u>	<u>\$ 20,862</u>

The decrease in total operating revenues between 2017 and 2016 was primarily due to a decrease in grants awarded to the Port Authority, specifically from Federal Transportation Administration. The decrease in total operating expenses between 2017 and 2016 was due to a decrease in Federal and State pass-through expenses, and the related decrease in Federal Transportation grant contract expenses.

Capital Assets

At December 31, 2017, the Port Authority had a total of \$ 3,267,347 invested in capital assets less accumulated depreciation of \$626,401 resulting in total capital assets, net of accumulated depreciation, of \$2,640,946. Capital asset additions of \$196,016 were recorded for 2017 and depreciation expense for the year totaled \$115,710. See Note 3 of the notes to the basic financial statements for more detailed information on the Port Authority's capital assets.

Debt Administration

The Port Authority finances construction in progress primarily through the issuance of debt. At December 31, 2017, debt outstanding was \$2,840,542. See Note 12 of the notes to the basic financial statements for more detailed information on the Port Authority's debt obligations.

Request for Information

This financial report is designed to provide a general overview of the Port Authority's finances and to show the Port Authority's accountability for the money it receives spends and invests. Questions concerning any of the information provided in this report or requests for additional information should be directed to Dr. Bill Dingus, Executive Director of Lawrence Economic Development Corporation, 216 Collins Avenue, South Point, Ohio 45680 or Kelly Adkins, CFO of Ironton-Lawrence County Area Community Action Organization, Inc., 305 N. 5th Street, Ironton, Ohio 45638.

Lawrence County Port Authority
Statement of Net Position
December 31, 2017

Assets:

Current assets:

Cash	\$ 265,334
Grants receivable	27,737
Current portion of lease receivable	<u>339,176</u>
	<u>632,247</u>

Capital assets:

Land	199,012
Land held for resale	700,000
Buildings	1,874,660
Equipment	493,675
Accumulated depreciation	<u>(626,401)</u>
	<u>2,640,946</u>

Other long-term assets:

Lease receivable, net of current portion	2,416,863
Due from affiliates	502,027
Note receivable	50,929
Deferred costs, net	<u>726</u>
	<u>2,970,545</u>

Total assets **\$ 6,243,738**

Liabilities:

Current liabilities:

Accounts payable	\$ 4,218
Due to affiliates	317,055
Current portion of notes payable	<u>294,073</u>
	<u>615,346</u>

Long term liabilities:

Notes payable, net of current portion	2,546,469
Unearned revenue	527,854
Escrow	<u>101,083</u>
	<u>3,175,406</u>

Total liabilities **3,790,752**

Net position:

Net investment in capital assets	2,003,296
Unrestricted net position	<u>449,690</u>
Total net position	<u>2,452,986</u>

Total liabilities and net position **\$ 6,243,738**

The accompanying notes are an integral part of these financial statements.

Lawrence County Port Authority
Statement of Revenues, Expenses and Changes in Net Position
Year Ended December 31, 2017

Operating revenues:	
Grants and reimbursement contracts	\$ 780,517
Service fees	293,966
In-kind contributions	<u>126,945</u>
Total operating revenues	<u>1,201,428</u>
 Operating expenses:	
Professional fees	25,534
Consultants/ contractual	628,463
Space costs	136,855
Insurance	32,705
Equipment lease and maintenance	8,851
Taxes	3,004
Supplies	5,597
Depreciation	115,710
Amortization	379
Grant expenses - pass through	87,197
Other	<u>49,210</u>
Total operating expenses	<u>1,093,505</u>
Operating income	107,923
 Non-operating revenues/(expenses):	
Deferred developer fee income	21,000
Loss on sale of assets	(82,508)
Interest income	92,128
Interest expense	<u>(117,681)</u>
Total non-operating revenues/(expenses)	(87,061)
Change in net position	20,862
Net position at beginning of year	<u>2,432,124</u>
Net position at end of year	<u>\$ 2,452,986</u>

The accompanying notes are an integral part of these financial statements.

Lawrence County Port Authority
Statement of Cash Flows
Year Ended December 31, 2017

Cash flows from operating activities:

Cash from grants and reimbursement contracts	\$ 876,036
Cash from service fees	293,966
Cash payments for goods and services	(891,074)
Net cash provided by operating activities	<u>278,928</u>

Cash flows from investing activities:

Purchases of capital assets	<u>(196,016)</u>
	(196,016)

Cash flows from noncapital financing activities:

Advances to/from affiliates	<u>(130,432)</u>
	(130,432)

Cash flows from capital and related financing activities:

Principal paid on debt	(284,139)
Principal from lease receivable	216,490
Cash from lease interest	92,129
Cash from deferred developer fee	21,000
Cash payment for interest	(117,681)
Proceeds from escrow payments	<u>9,558</u>
Net cash used in capital and related financing activities	<u>(62,643)</u>

Net change in cash (110,163)

Cash at beginning of year 375,497

Cash at end of year \$ 265,334

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ 107,923
Depreciation	115,710
Amortization	379

Changes in assets and liabilities:

(Increase)/decrease in grants receivable	95,519
Increase/(decrease) in accounts payable	<u>(40,603)</u>

Net cash provided by operating activities \$ 278,928

Supplemental Disclosure

Non-cash in-kind contributions \$ 126,945

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Lawrence County Port Authority was established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio pursuant to the authority of Sections 4582.21 to 4582.59 of the Ohio Revised Code. The Port Authority was created on December 2, 2004 by the Lawrence County Commissioners. The purpose of the Port Authority is to be involved in the activities that enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within Lawrence County. The Port Authority provides services that are enumerated in Sections 4582.21 to 4582.59 of the Ohio Revised Code. These services included 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 to accomplish these activities.

The Port Authority is statutorily created as a separate and distinct political subdivision of the State. The Authority was governed by a five member Board of Directors appointed by the Lawrence County Commissioners. As of June 1, 2013, the Port Authority entered into an agreement where the Ironton Port Authority merged into the Lawrence County Port Authority. This merger resulted in the Lawrence County Port Authority going from a five member board to a nine member Board of Directors that is appointed by the Lawrence County Commissioners. Lawrence County Port Authority did not receive any assets or liabilities as a result of this merger. However, the Port Authority will eventually receive certain excluded assets, as defined in the transfer agreement from the City of Ironton at a future date. The Port Authority is a component unit of Lawrence County, Ohio. Ironton – Lawrence County Area Community Action Organization, Inc. is the fiscal agent for the Port Authority. Ironton – Lawrence County Area Community Action Organization, Inc. and Lawrence Economic Development Corporation provides administrative staff and services for the Port Authority for no fee. These services are recorded as in-kind contributions in the financial statements.

The financial statements are presented as of December 31, 2017 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of accounting principles generally accepted in the United States of America in that the financial statements include all organizations, activities, functions and component units for which the Port Authority (the primary government) is financially accountable. The Port Authority is financially accountable for an organization if it has (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others.

Based on the foregoing, the Port Authority's financial reporting entity has no component units.

B. Basis of Presentation

The Port Authority operates a self-supporting governmental enterprise and uses accounting policies applicable to governmental enterprise funds. All transactions are accounted for in a single enterprise fund.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of the Port Authority are included on the statement of net position. The statement of revenues, expenses and changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net position. The statement of cash flows provides information about how the Port Authority finances and meets the cash flow needs of its enterprise activity.

D. Basis of Accounting

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

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Non-exchange transactions, in which the Port Authority receives value without directly giving equal value in return, include grant revenue received by the Port Authority. Grant revenue is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted. Under the accrual basis of accounting, expenses are recognized at the time they are incurred.

E. Budgetary Process

Ohio Revised Code Section 4582.39 requires the Port Authority annually to prepare a budget. No further approvals or actions are required under section 4582 of the Ohio Revised Code.

F. Cash

The Port Authority maintains a cash management program whereby cash is deposited with a banking institution in Lawrence County. The agreements restrict activity to certain deposits. The deposits are stated at cost, which approximate market value. Investments procedures are restricted by the provision of the Ohio Revised Code. For the purpose of the Statement of Cash Flows, the Port Authority considers all high liquid investments with maturities of less than three months (including restricted assets) to be cash equivalents.

G. Capital Assets

Capital assets utilized by the Port Authority are reported on the statement of net position. All capital assets are capitalized at cost, unless donated. Donated capital assets are reported at their acquisition values as of the date received. Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Capital assets are depreciated using the straight-line method over estimated useful lives ranging from three to forty years.

H. Net Position

Net position represents the difference between assets and liabilities. 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 positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Net Position (Continued)

The Port Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net positions are available. The Port Authority did not have any restricted net position for 2017.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Port Authority, these revenues are grants, contributions, and fees. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Port Authority. Revenues and expenses not meeting these definitions are reported as non-operating.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 - CASH

Deposits

For the year ended December 31, 2017, the carrying amount of the Port Authority's deposits was \$265,334 and the depository balance was \$474,977. The Port Authority's deposits at year-end consisted entirely of deposits with financial institutions. 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 the Port Authority and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least one hundred five percent of the deposits being secured; or

Participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State.

At December 31, 2017, the Port Authority's financial institutions still maintained their own collateral pools 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 105 percent of the deposits being secured.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2017 was as follows:

Capital assets not being depreciated	<u>Balance at 12/31/16</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at 12/31/17</u>
Land	\$ 159,012	\$ 40,000	\$ -	\$ 199,012
Land held for resale	700,000	-	-	700,000
 Capital assets being depreciated				
Buildings	1,814,660	60,000	-	1,874,660
Equipment	1,222,737	96,016	(825,078)	493,675
Less accumulated depreciation	<u>(1,253,261)</u>	<u>(115,710)</u>	<u>742,570</u>	<u>(626,401)</u>
 Capital assets, net	 <u>\$ 2,643,148</u>	 \$ 80,306	 \$ (82,508)	 <u>\$ 2,640,946</u>

NOTE 4 - RUMPKE CONSOLIDATED COMPANIES, INC. PROJECT

During 2005, the Port Authority financed the construction of two buildings having a combined total 42,825 square feet to be used for the operation of a regional solid waste transfer station/recycling, maintenance facility service business and related purposes on approximately 11.633 acres in Hamilton Township, Lawrence County for the Rumpke Consolidated Companies, Inc. Construction cost was funded by a \$4,158,061 loan from Oak Hill Bank (now Wesbanco) dated October 11, 2005.

Principal and interest payments on the Wesbanco loan were due monthly in the amount of \$21,561 until February 11, 2007 and bore interest at 4 percent to October 11, 2010 at which time it became adjustable and cannot exceed 6 percent. The loan is secured by a first mortgage on the property in Hamilton Township, Lawrence County and collateral assignment of this lease.

During 2007, the Port Authority received an Ohio Department of Development, 166 Pioneer Rural Loan for the project in the amount of \$600,000 and used the funds to pay down the principal on the Wesbanco loan. Principal and interest payments on the loan in varying amounts are due monthly until October 1, 2022 and bears interest at 1 percent for the first year and 3 percent thereafter.

The Port Authority has entered into a twenty-one (21) year lease agreement dated October 11, 2005, with Rumpke Consolidated Companies, Inc. for use of the project facility. The lessee has the right to purchase the project prior to maturity for the amount equal to the remaining balance of principal and accrued interest as will then be needed, as of the date of closing to satisfy all debt services, plus the remaining developer's fee that are due and payable the lessor through the entire term of the lease. The lessee also has the right to purchase the project at the end of the lease for \$1.

The Port Authority accounts for the lease with Rumpke Consolidated Companies, Inc. as a financing lease. Payments commenced under the lease in November 1, 2006 and consisted of interest and fees until September 1, 2007. Beginning October 1, 2007 and until the final lease payment scheduled for October 1, 2025, the timing and amount of payments due from the lessee are scheduled to meet the debt service requirements of the Port Authority for the Wesbanco loan and the Ohio Department of Development, Pioneer 166 Loan.

NOTE 4 - RUMPKE CONSOLIDATED COMPANIES, INC. PROJECT (Continued)

The difference between the financing lease receivable and the total payments to be made by the lessee are being amortized over the term of the lease so as to produce a constant periodic rate of return on the Port Authority's investment in the lease. The future minimum lease payment to be received and the Port Authority's net investment in the lease are as follows:

	2018		\$ 339,176
	2019		339,176
	2020		339,176
	2021		339,176
	2022		339,176
	Thereafter		1,060,159
	Total		2,756,039
	Unearned income		(323,104)
	Net investment in lease		\$ 2,432,935

NOTE 5 – DUE FROM AFFILIATES

Changes in due from affiliates of the Port Authority during the year ended December 31, 2017 consisted of the following:

	<u>Balance at</u> <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at</u> <u>12/31/17</u>
Ironton- Lawrence County Area Community Action Organization, Inc.	\$ -	\$ 31,228	\$ -	\$ 31,228
Old Engineer Property LLC	139,599	31,200	-	170,799
Proctors Landing	<u>100,000</u>	<u>200,000</u>	-	<u>300,000</u>
	<u>\$ 239,599</u>	<u>\$ 262,428</u>	<u>\$ -</u>	<u>\$ 502,027</u>

NOTE 6 - DUE TO AFFILIATES

Changes in due to affiliates of the Port Authority during the year ended December 31, 2017 consisted of the following:

	<u>Balance at</u> <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance at</u> <u>12/31/17</u>
Ironton- Lawrence County Area Community Action Organization, Inc.	\$ 139,216	\$ 433,245	\$ (291,249)	\$ 281,212
Lawrence Economic Development Corporation	<u>45,843</u>	<u>-</u>	<u>(10,000)</u>	<u>35,843</u>
Total	<u>\$ 185,059</u>	<u>\$ 433,245</u>	<u>\$ (301,249)</u>	<u>\$ 317,055</u>

NOTE 7 - RELATED PARTY TRANSACTIONS

Ironton-Lawrence County Area Community Action Organization, Inc. provided \$88,038 of in-kind contributions to Lawrence County Port Authority in 2017 for consulting services in providing administrative services. Tri-State Transit Authority provided \$38,907 of in-kind contributions for maintenance and transit related services.

NOTE 8 – NOTE RECEIVABLE

On December 30, 2016, the Port Authority entered into a loan agreement with Ironton Medical Campus Partners, LLC to finance a portion of a land acquisition bond payment. The Loan Agreement is for \$50,929 and is payable from future cash flows and bears no interest. No payments were made in the current year.

NOTE 9 - RISK MANAGEMENT

Lawrence County Port Authority is exposed to various risk of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

Settled claims have not exceeded the Port Authority’s commercial insurance coverage for any of the past three years: there have been no claims. There has been no significant reduction in coverage in relation to the prior year.

NOTE 10 - CONCENTRATION OF CREDIT RISK

Lawrence County Port Authority’s primary assets consist of land, capital assets and lease receivables located in Lawrence County, Ohio. Lawrence County Port Authority’s primary source of income has been private and state loans, state and federal grants used in the remedial development of industrial property that is ultimately sold at fair market value. The purpose of Lawrence County Port Authority’s sale of industrial property is to promote the creation of industrial related jobs in Lawrence County and property sales are typically made at or below cost. Lawrence County Port Authority has been totally dependent on local and state loans, and state and federal funds for its continued existence.

NOTE 11 - CONTINGENCIES

The Port Authority has received federal and state grants for specific purposes that are subject to review and audit by the grantor agency or their designee. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Based upon prior experience, the Board of Directors believes such disallowance, if any, will be immaterial. Lawrence County Port Authority is not a defendant in any law suit.

NOTE 12 - NOTES PAYABLE

Changes in note obligations of the Port Authority during the year ended December 31, 2017 consisted of the following:

	Balance at <u>12/31/16</u>	<u>Additions</u>	<u>Payments</u>	Balance at <u>12/31/17</u>	Due in <u>One Year</u>
Wesbanco	\$ 2,155,991	\$ -	\$ (174,543)	\$ 1,981,448	\$ 181,755
State of Ohio	263,391	-	(41,947)	221,444	43,223
Liberty Federal	119,715	-	(37,292)	82,423	38,957
Citizens Deposit	585,584	-	(30,357)	555,227	30,138
Total	<u>\$ 3,124,681</u>	<u>\$ -</u>	<u>\$ (284,139)</u>	<u>\$ 2,840,542</u>	<u>\$ 294,073</u>

On October 11, 2005, the Port Authority entered into a loan agreement with Oak Hill Bank (now Wesbanco) to finance noncapitalized assets. The Loan Agreement is for \$4,158,061 for thirty years and is collateralized by the assignment of the Rumpke lease (see Note 4). The terms of the note provide among other things, for repayment in equal monthly installments including principal and 4% Interest until 2010 and an adjustable rate, thereafter, not to go higher than 6% interest. The note matures in October 2026.

NOTE 12 - NOTES PAYABLE (Continued)

On September 11, 2007, the Port Authority entered into a loan agreement for \$600,000 with the State of Ohio in the Pioneer 166 Loan Program to finance noncapitalized assets. The loan is collateralized by a shared first mortgage on the project. The loan consists of monthly installments including principal and 1% interest for the first year and 3% interest thereafter. The note matures in October 2022.

On December 7, 2009, the Port Authority entered into a loan agreement with Liberty Federal Bank to finance EMS stations. The Loan Agreement is for \$338,250 for thirty years and is collateralized by the associated assets being financed. The terms of the note provide among other things, for repayment in equal monthly installments including principal and 4.37% interest. The note matures in January 2020.

On July 19, 2012, the Port Authority entered into a loan agreement with Ohio River Valley Bank (now Citizens Deposit Bank). The Loan Agreement is for \$700,000 for fifteen years and is collateralized by an open-end mortgage on the property. The terms of the note provide among other things, for repayment in equal monthly installments including principal and 3.30% initial interest, adjusting every 5 years based on the New York Prime Rate as published by the Wall Street Journal. The note matures in August 2027.

	Wesbanco Loan			State of Ohio Pioneer Loan		
	Principal	Interest	Total	Principal	Interest	Total
2018	181,755	76,977	258,732	43,223	6,052	49,275
2019	189,265	69,467	258,732	44,538	4,737	49,275
2020	196,904	61,828	258,732	45,892	3,383	49,275
2021	205,220	53,512	258,732	47,288	1,987	49,275
2022	213,699	45,033	258,732	40,503	8,771	49,274
2023-2026	994,605	141,964	1,136,569	-	-	-
Total	<u>\$ 1,981,448</u>	<u>\$ 448,781</u>	<u>\$ 2,430,229</u>	<u>\$ 221,444</u>	<u>\$ 24,930</u>	<u>\$ 246,374</u>

	Liberty Federal Loan			Citizens Deposit Loan		
	Principal	Interest	Total	Principal	Interest	Total
2018	38,957	2,732	41,689	30,138	17,862	48,000
2019	40,692	1,121	41,813	31,147	16,853	48,000
2020	2,774	12	2,786	32,191	15,809	48,000
2021	-	-	-	33,269	14,731	48,000
2022	-	-	-	34,384	13,616	48,000
2023-2026	-	-	-	394,098	47,063	441,161
Total	<u>\$ 82,423</u>	<u>\$ 3,865</u>	<u>\$ 86,288</u>	<u>\$ 555,227</u>	<u>\$ 125,934</u>	<u>\$ 681,161</u>

On April 23, 2013, the Port Authority, Lawrence Economic Development Corporation and the KYOVA Interstate Planning Commission ("the Commission") entered into a loan agreement with the Ohio Department of Transportation to construct a crane foundation as part of the sheet pile dock staging facility used for transferring goods from barges to road. This loan is payable solely from and secured by a pledge of the Commission's Congestion Mitigation and Air Quality Improvement Program ODOT Sub-Allocation. The loan does not constitute a debt or pledge of the faith and credit of the Port Authority, and accordingly has not been reported in the accompanying financial statements. At December 31, 2017, the outstanding balance on the note was \$1,453,168.

NOTE 12 - NOTES PAYABLE (Continued)

In March 2016, the Port Authority authorized the issuance and sale of revenue bonds in an amount not to exceed \$8,500,000 for the purpose of developing certain Port Authority facilities. In April 2016, the Port Authority entered into a lease agreement with Precision Paint Systems, LLC for the use of the aforementioned facilities. As of the issuance of these financials, the project was near completion and Superior Inc. is making interest payments on the bonds. These bonds are payable from and secured by a pledge of the rental and other revenues pursuant to the aforementioned lease. These bonds do not constitute a debt or pledge of the faith and credit of the Port Authority, and accordingly has not been reported in the accompanying financial statements. At December 31, 2017, the outstanding balance on the note was \$6,010,681.

NOTE 13 – SUBSEQUENT EVENTS

The Port Authority evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements.

The Port Authority had a 20 year lease to Rumpke as referenced in Note 4 for use of their facility in Franklin Furnace with an option to buy. In October 2017, the CFO for Rumpke contacted the Port Authority to discuss payoff and their desire to purchase the facility for possible expansion. In January 2018, Rumpke paid off their loan/lease and the deed for the facility was transferred to Rumpke.

Report 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*

Independent Auditor's Report

Board of Directors
Lawrence County Port Authority
350 North 5th Street
Ironton, Ohio 45638

We have audited, in accordance with the 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, the financial statements of the business-type activities of Lawrence County Port Authority, (the Port Authority) as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Port Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Port Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Port Authority's internal control.

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 functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a 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. 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 deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free from 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 such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Natalie Millhuff-Stang, CPA, CITP
President/Owner
Millhuff-Stang, CPA, Inc.
Portsmouth, Ohio

September 28, 2018

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Dave Yost • Auditor of State

LAWRENCE COUNTY PORT AUTHORITY

LAWRENCE 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
NOVEMBER 20, 2018