



Dave Yost • Auditor of State

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lorain Port Authority
Lorain County
319 Black River Lane
Lorain, Ohio 44052

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 Lorain Port Authority, Lorain County, Ohio (the Port Authority) as of and for the years ended December 31, 2017 and 2016.

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, 2017 and 2016, and the 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, receipts and disbursements by fund type, and related notes of the Lorain Port Authority, Lorain County as of December 31, 2017 and 2016, 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 September 25, 2018, 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

September 25, 2018

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**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2017**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property Taxes	\$703,474		\$703,474
Charges for Services	142,675		142,675
Intergovernmental	190,629	\$68,481	259,110
Miscellaneous	20,621		20,621
<i>Total Cash Receipts</i>	<u>1,057,399</u>	<u>68,481</u>	<u>1,125,880</u>
Cash Disbursements			
Current:			
Security of Persons and Property	150	25,608	25,758
Leisure Time Activities	62,620		62,620
Basic Utility Services	57,080		57,080
General Government	865,859	39,709	905,568
Capital Outlay	6,455	15,783	22,238
<i>Total Cash Disbursements</i>	<u>992,164</u>	<u>81,100</u>	<u>1,073,264</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	<u>65,235</u>	<u>(12,619)</u>	<u>52,616</u>
Other Financing Receipts (Disbursements)			
Transfers In		10,669	10,669
Transfers Out	(10,669)		(10,669)
Advances In	1,045	4,273	5,318
Advances Out	(4,273)	(1,045)	(5,318)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(13,897)</u>	<u>13,897</u>	<u>0</u>
Special Item - Receipt (see note 14)	293,299		293,299
Special Item - Disbursement (see note 14)	(290,862)		(290,862)
<i>Net Change in Fund Cash Balances</i>	53,775	1,278	55,053
<i>Fund Cash Balances, January 1</i>	<u>543,648</u>	<u>160</u>	<u>543,808</u>
Fund Cash Balances, December 31			
Restricted		1,438	1,438
Assigned	173,242		173,242
Unassigned	424,181		424,181
<i>Fund Cash Balances, December 31</i>	<u>\$597,423</u>	<u>\$1,438</u>	<u>\$598,861</u>

The notes to the financial statements are an integral part of this statement.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES (CASH BASIS)
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Fiduciary Fund Type
	Agency
Operating Cash Receipts	
Charges for Services	\$14,795
<i>Total Operating Cash Receipts</i>	14,795
Operating Cash Disbursements	
Contractual Services	-
Other (Payment to Promoter)	14,795
<i>Total Operating Cash Disbursements</i>	14,795
<i>Net Change in Fund Cash Balances</i>	0
<i>Fund Cash Balances, January 1</i>	0
<i>Fund Cash Balances, December 31</i>	\$0

The notes to the financial statements are an integral part of this statement.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 1 – Reporting Entity

The Lorain Port Authority, Lorain County, (the Port Authority) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority is directed by a nine-member Board, appointed for staggered four year terms by the Mayor and approved by City Council of the City of Lorain. The Port Authority promotes economic development, provides water safety and recreational programs, and sound waterfront management. The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable.

The Port Authority has entered into an agreement with the City of Lorain to administer and manage its Tax Incremental Financing. The City of Lorain currently has over ten districts and is adding others as development occurs. These districts are a means by which to make infrastructure related improvements within the vicinity of the district.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Port Authority's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Port Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Port Authority are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Port Authority for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Port Authority had the following significant Special Revenue Funds:

USEPA Brownfield Assessment Grant for Hazardous Waste Fund This fund is utilized for the assessment of properties that may have hazardous waste. The Port has been awarded two Hazardous Waste grants. The first grant was completed in 2016. The second grant began in 2017.

Marine Patrol Program Fund This fund is used to account for the boater education, safety and security of the waters in and around Lorain Ohio. The Marine Patrol Program is funded through a grant by Ohio Department of Natural Resources, Division of Parks and Watercraft.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Port Authority's own programs. The Port Authority had no private purpose trust fund during 2017.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Port Authority disburses these funds as directed by the individual, organization or other government. In 2017, the Port Authority had one agency fund, *Rockin' on the River*. This fund represents ticket sales for the Rockin' on the River concert series.

Basis of Accounting

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's Board 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.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control, and appropriations may not exceed estimated resources. The Port Authority's Board must annually approve appropriation measures and subsequent amendments. The Lorain County Budget Commission must also approve appropriation measure. Unencumbered appropriations lapse at year end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The Lorain County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2017 budgetary activity appears in Note 4.

Capital Assets

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.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused compensation and vacation leave. The financial statements do not include a liability for unpaid leave.

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:

Non-spendable The Port Authority classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

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.

Committed Port Authority's Board of Directors can *commit* amounts via formal action (resolution). The Entity must adhere to these commitments unless the Port Authority's Board of Directors amends 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.

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 Port Authority's Board of Directors or a Port Authority official delegated that authority by resolution, or by State Statute.

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.

Note 3 – Compliance

The Port Authority's management believes we have complied with Ohio law regarding budgetary, expenditures and appropriation.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2017 is as follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,333,910	\$1,350,698	\$16,788
Special Revenue	242,669	79,150	(163,519)
Fiduciary	14,795	14,795	-
Total	\$1,591,374	\$1,444,643	(\$146,731)

2017 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,495,364	\$1,332,828	\$162,536
Special Revenue	242,828	81,114	161,714
Fiduciary	14,795	14,795	-
Total	\$1,752,987	\$1,428,737	\$324,250

Note 5 – Deposits

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

<u>2017</u>	
Deposits	
Demand Deposits	\$598,861
Total Deposits	<u>\$598,861</u>

Deposits

Deposits are collateralized through the Ohio Pooled Collateral System.

Note 6 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Port Authority's Board adopts the rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Lorain County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Port Authority.

Note 7 – Interfund Balances

Advances

As of December 31, 2017, the Port Authority had one outstanding advance from the General fund to the USEPA Brownfield Hazardous Waste Special Revenue Fund due to the timing of the reimbursement. The Port Authority paid all expenditures relating to the 2017 Brownfield Conference in December 2017. The Port Authority received reimbursement in January 2018. Therefore, the balance of this advance was repaid in January 2018.

Transfers

Transfers from the General Fund to the Marine Patrol Program Special Revenue Fund were to financially support the program.

Note 8 – Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Entity pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Commercial Insurance

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

- Comprehensive property and general liability
- Vehicles
- Public Officials and Employees liability
- Faithful performance bonds

Note 9 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Port Authority's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivors and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2017.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 10 – Postemployment Benefits

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. The portion of employer contributions allocated to health care for OPERS members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017.

Note 11 – Debt

The Port Authority has no outstanding debt as of December 31, 2017.

Conduit Debt

The Port Authority issued (\$10,000,000) ten million dollars to The Altenheim Properties, Inc. in variable rate Revenue Bonds, series 2012 on November 28, 2012. The account balance as of December 31, 2017 was \$6,460,003.

The Port Authority issued (\$6,000,000) six million dollars in variable rate Civic Facility Revenue Bonds for Horizon Activities Center, series 2008 for 20 years. Account balance on December 31, 2017 was \$2,695,000.

The Port Authority issued (\$7,800,000) seven million – eight hundred thousand dollars in Economic Development Revenue Bonds to Ohio Guidestone, series 2016. Account balance on December 31, 2017 was \$7,305,938.

The Port Authority is not obligated in any way to pay debt related charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the Port Authority's debt presentation. There has not been and there is not currently any condition of default under the bonds of the related financing documents.

Note 12 – Construction and Contractual Commitments

The Port Authority has a contract in place for an economic development strategic planning assessment.

Note 13 – Contingent Liabilities

Amounts grantor agencies pay to the Port Authority are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

Note 14 – Special Items

The Port Authority owns a number of real estate parcels. Some of these parcels are leased out. Properties that are utilized for business type activities are taxable. However; certain parcels that were taxed as business type were actually for the benefit of the public as lake front public access, parking and green space. The majority of this property tax was paid by the lessee. In 2017, the Ohio Department of Taxation sent a final determination letter and a refund check for 2010 – 2017. Applicable amounts were then refunded to the lessee.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2017

Note 15 – Subsequent Events

The U.S. Saint Lawrence Seaway Development Corporation announced the 2017 winners of the Robert J. Lewis Pacesetter Award. The Port Authority was one of six ports to receive this award, for registering an increase in international cargo.

The Broadway building is a historic building in downtown Lorain, Ohio. The Port Authority has been assisting with the transactions to allow a private developer, Radhika Reddy and her team at Ariel Ventures, LLC to rehabilitate the Broadway Building. On June 20, 2018 the Ohio Development Services Agency announced that this project was awarded \$1.75 million dollars in Ohio Preservation (Historic) Tax Credits.

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**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES (CASH BASIS)
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	General	Special Revenue	Totals (Memorandum Only)
Cash Receipts			
Property Taxes	\$682,336		\$682,336
Charges for Services	185,202		185,202
Intergovernmental	144,815	\$108,425	253,240
Earnings on Investments	1		1
Miscellaneous	11,425	73	11,498
<i>Total Cash Receipts</i>	<u>1,023,779</u>	<u>108,498</u>	<u>1,132,277</u>
Cash Disbursements			
Current:			
Security of Persons and Property	4,550	43,583	48,133
Leisure Time Activities	53,223		53,223
Basic Utility Services	59,368		59,368
General Government	735,579	76,425	812,004
Capital Outlay	3,444	20	3,464
<i>Total Cash Disbursements</i>	<u>856,164</u>	<u>120,028</u>	<u>976,192</u>
<i>Excess of Receipts (Under) Disbursements</i>	<u>167,615</u>	<u>(11,530)</u>	<u>156,085</u>
Other Financing Receipts (Disbursements)			
Transfers In	73	10,669	10,742
Transfers Out	(10,669)	(73)	(10,742)
Advances In	683	683	1,366
Advances Out	(683)	(683)	(1,366)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(10,596)</u>	<u>10,596</u>	<u>0</u>
<i>Net Change in Fund Cash Balances</i>	157,019	(934)	156,085
<i>Fund Cash Balances, January 1</i>	<u>386,629</u>	<u>1,094</u>	<u>387,723</u>
Fund Cash Balances, December 31			
Restricted		160	160
Assigned	168,792		168,792
Unassigned (Deficit)	374,856		374,856
<i>Fund Cash Balances, December 31</i>	<u>\$543,648</u>	<u>\$160</u>	<u>\$543,808</u>

The notes to the financial statements are an integral part of this statement.

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**STATEMENT OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES (CASH BASIS)
FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Fiduciary Fund Type
	Agency
Operating Cash Receipts	
Charges for Services	\$95,028
<i>Total Operating Cash Receipts</i>	95,028
Operating Cash Disbursements	
Contractual Services	16,047
Other (Payment to Promoter)	78,981
<i>Total Operating Cash Disbursements</i>	95,028
<i>Net Change in Fund Cash Balances</i>	0
<i>Fund Cash Balances, January 1</i>	0
<i>Fund Cash Balances, December 31</i>	\$0

The notes to the financial statements are an integral part of this statement.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Note 1 – Reporting Entity

The Lorain Port Authority, Lorain County, (the Port Authority) is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority is directed by a nine-member Board, appointed for staggered four year terms by the Mayor and approved by City Council of the City of Lorain. The Port Authority promotes economic development, provides water safety and recreational programs, and sound waterfront management. The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable.

The Port Authority has entered into an agreement with the City of Lorain to administer and manage its Tax Incremental Financing. The City of Lorain currently has over ten districts and is adding others as development occurs. These districts are a means by which to make infrastructure related improvements within the vicinity of the district.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Port Authority's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The Port Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the Port Authority are presented below:

General Fund The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the Port Authority for any purpose provided it is expended or transferred according to the general laws of Ohio.

Special Revenue Funds These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The Port Authority had the following significant Special Revenue Funds:

USEPA Brownfield Assessment Grant for Hazardous Waste Fund This fund is utilized for the assessment of properties that may have hazardous waste. The initial grant was awarded in 2012. On September 8, 2016 a second grant was awarded.

USEPA Brownfield Assessment Grant Petroleum Fund This fund is utilized for assessing property that may have petroleum or related environmental issues.

Marine Patrol Program Fund This fund is used to account for the boater education, safety and security of the waters in and around Lorain Ohio. The Marine Patrol Program is funded through a grant by Ohio Department of Natural Resources, Division of Parks and Watercraft.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Fireworks Fund This fund is made up of donations for the Independence Day, July 4th, fireworks display.

Fiduciary Funds Fiduciary funds include private purpose trust funds and agency funds. Trust funds account for assets held under a trust agreement for individuals, private organizations, or other governments which are not available to support the Port Authority's own programs. The Port Authority had no private purpose trust funds during 2016.

Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The Port Authority disburses these funds as directed by the individual, organization or other government. In 2016, the Port Authority had two agency funds, *Rockin' on the River* and *Country Jam*. These funds represent ticket sales for the Rockin' on the River and the Country Jam concert series.

Basis of Accounting

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's Board 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.

Budgetary Process

The Ohio Revised Code requires that each fund be budgeted annually.

Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control, and appropriations may not exceed estimated resources. The Port Authority's Board must annually approve appropriation measures and subsequent amendments. The Lorain County Budget Commission must also approve appropriation measure. Unencumbered appropriations lapse at year end.

Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The Lorain County Budget Commission must also approve estimated resources.

Encumbrances

The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be re-appropriated.

A summary of 2016 budgetary activity appears in Note 4.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Capital Assets

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.

Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused compensation and vacation leave. The financial statements do not include a liability for unpaid leave.

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:

Non-spendable The Port Authority classifies assets as *non-spendable* when legally or contractually required to maintain the amounts intact.

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.

Committed Port Authority's Board of Directors can *commit* amounts via formal action (resolution). The Entity must adhere to these commitments unless the Port Authority's Board of Directors amends 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.

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 Port Authority's Board of Directors or a Port Authority official delegated that authority by resolution, or by State Statute.

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.

Note 3 – Compliance

The Port Authority's management believes we have complied with Ohio law regarding budgetary, expenditures and appropriation.

LORAIN PORT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Note 4 – Budgetary Activity

Budgetary activity for the year ending December 31, 2016 is as follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$1,138,191	\$1,023,852	(\$114,339)
Special Revenue	372,855	119,167	(253,688)
Fiduciary	95,028	95,028	-
Total	\$1,606,074	\$1,238,047	(\$368,027)

2016 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$1,075,904	\$874,171	\$201,733
Special Revenue	373,675	120,101	253,574
Fiduciary	95,028	95,028	-
Total	\$1,544,607	\$1,089,300	\$455,307

Note 5 – Deposits

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

<u>2016</u>	
Deposits	
Demand Deposits	\$543,808
Total Deposits	\$543,808

Deposits

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

Note 6 – Taxes

Property Taxes

Real property taxes become a lien on January 1 preceding the October 1 date for which the Port Authority's Board adopts the rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the

LORAIN PORT AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

first half is due December 31. The second half payment is due the following June 20.

Lorain County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the Port Authority.

Note 7 – Interfund Balances

Advances

At December 31, 2016, all inter-fund cash advances were repaid in full.

Transfers

Transfers from the General Fund to the Marine Patrol Program Special Revenue Fund were to financially support the program.

Transfers from the Fireworks Fund Special Revenue Fund to the General Fund were to assist with the annual Independence Day fireworks display.

Note 8 – Risk Management

Workers' Compensation coverage is provided by the State of Ohio. The Entity pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Commercial Insurance

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

- Comprehensive property and general liability
- Vehicles
- Professional (directors and officers) liability
- Errors and omissions

Note 9 – Defined Benefit Pension Plans

Ohio Public Employees Retirement System

The Port Authority's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivors and disability benefits.

The Ohio Revised Code also prescribes contribution rates. 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, 2016.

Note 10 – Postemployment Benefits

OPERS offer cost-sharing, multiple-employer defined benefit postemployment plans, which include multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients. OPERS contributes 2 percent of the employer contribution to fund these benefits.

LORAIN PORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Note 11 – Debt

The Port Authority has no outstanding debt as of December 31, 2016.

Conduit Debt

The Port Authority issued (\$6,000,000) six million dollars in variable rate Civic Facility Revenue Bonds for Horizon Activities Center, series 2008 for 20 years. The account balance as of December 31, 2016 was \$2,950,000.

The Port Authority issued (\$6,225,000) six million two hundred twenty-five thousand dollar bonds to Fairfax Renaissance Development Corporation in 2013 for nine years, due June 1, 2022. The account balance as of December 31, 2016 was \$4,745,000.

The Port Authority issued (\$10,000,000) ten million dollar to The Altenheim Properties, Inc., in variable rate Revenue Bonds, series 2012 on November 28, 2012. The account balance as of December 31, 2016 was \$7,235,000.

The Port Authority issued (\$7,800,000) seven million eight hundred thousand dollars in Economic Development Revenue Bonds to Ohio Guidestone, series 2016. The account balance as of December 31, 2016 was \$7,635,528.

The Port Authority is not obligated in any way to pay debt related charges on the bonds from any of its funds, and therefore, they have been excluded entirely from the Port Authority's debt presentation. There has not been and there is not currently any condition of default under the bonds of the related financing documents.

The Port Authority authorized a Capital Lease Financing (Sales Tax Exemption) to CAMACO on July 12, 2016. The Project site will be leased by the Owner to the Lorain Port Authority for a nominal fee, payable in advance, pursuant to a 50 year lease "Ground Lease" with Owner. The Ground Lease will terminate the Project Lease. The Port will lease the Project to the Owner or its assigns pursuant to a 25 year capital lease "Project Lease". The Owner will be the owner of the Project for federal income tax purposes. The Project Lease is expected to reduce Project cost by savings on the construction materials. The Owner will have the option to terminate the Project Lease upon payment in full of the construction loan. Upon the expiration or earlier termination of the Project Lease, the Owner will have the option to purchase the Project from the Port Authority for a nominal fee.

Note 12 – Construction and Contractual Commitments

The Port Authority has a contract in place for an economic development strategic planning assessment.

Note 13 – Contingent Liabilities

Amounts grantor agencies pay to the Port Authority are subject to audit and adjustment by the grantor, principally the federal government. The grantor may require refunding any disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.



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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*

Lorain Port Authority
Lorain County
319 Black River Lane
Lorain, Ohio 44052

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 Lorain Port Authority, Lorain County, (the Port Authority) as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements and have issued our report thereon dated September 25, 2018 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings that we consider a material weakness. We consider finding 2017-001 to be a material weakness.

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*.

The Port Authority's Response to Findings

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

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the 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.



Dave Yost
Auditor of State
Columbus, Ohio

September 25, 2018

**LORAIN PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2017 AND 2016**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2017-001

Financial Reporting – Material Weakness

In our audit engagement letter, as required by AU-C Section 210, *Terms of Engagement*, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; 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 as discussed in AU-C Section 210 paragraphs .A14 & .A16.

The financial statements, and where applicable, the Port Authority's accounting records contained the following misclassifications of receipts and expenditures, which were subsequently adjusted by management:

- The Port Authority collects concert sales in a fiduciary capacity for various concert promoters. The entire collection of \$95,028 in 2016 and \$14,795 in 2017, which includes ticket fees and the Port Authority's charges for services fee, was reported as revenue of the Port Authority's General Fund. Payments to the promoter were subsequently made from the General Fund. An Agency Fund should have been established to account for the receipt and expenditure of monies on behalf of individuals or other organizations or governments. The Accountant was not aware of the Agency Fund requirements or classifications.
- In 2016 and 2017, the Port Authority misclassified homestead and rollback receipts as property taxes rather than intergovernmental revenue in the amounts of \$101,101 and \$99,261, respectively. The Accountant noted that when she budgets for the County, she is required to report these receipts as real estate. Likewise, the Accountant does not break out property taxes and homestead and rollback amounts in the City's accounting system.
- In 2017, the Port Authority misclassified a refund of an expenditure, in the amount of \$2,800, as charges for services rather than miscellaneous revenue. The Accountant was unsure how to post the refund of an expenditure.
- In 2017, the Port Authority reported a refund of property taxes, in the amount of \$290,862, to Spitzer Marina as general government expenditures rather than reporting it as a Special Item expenditure. The Accountant was unsure how to post the unique Special Item expenditure.

Failure to accurately classify financial statement transactions diminishes the reliability of the financial data at year-end.

We recommend the Port Authority re-evaluate its methods for posting financial transactions, preparing annual financial statements and the management review process over the expenditure cycle.

Official's Response: Going forward, an Agency Fund will be established to account for all transaction on ticket sales for other individuals, organizations, or governments. Lorain County estimates the amount of levy funds the Lorain Port Authority will budget/receive. In the future the receipts for Homestead and Rollback will be in an intergovernmental revenue account. As unique and special items arise in the future, more research will be completed to ensure accurate classification.

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LORAIN PORT AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
OCTOBER 16, 2018