LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2006

Mary Taylor, CPA
Auditor of State

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

Lorain County Regional Airport Authority
Lorain County
44050 Russia Road
Elyria, Ohio 44035

To the Lorain County Commissioners:

We have audited the accompanying basic financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport), a component unit of Lorain County, as of and for the year ended December 31, 2006, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Regional Airport Authority, as of December 31, 2006, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the basic financial statements, by order of the Lorain County Common Pleas Court the Airport Authority was dissolved effective December 31, 2006. Lorain County assumed all remaining assets and liabilities of the Airport Authority on January 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2007, on our consideration of the Airport'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. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 23, 2007

The discussion and analysis of the Lorain County Regional Airport Authority's (the Airport) financial performance provides an overview of the Airport's financial activities for the year ended December 31, 2006. The intent of this discussion and analysis is to look at the Airport's financial performance as a whole; readers are encouraged to consider information presented here as well as the basic financial statements to enhance their understanding of the Airport's financial performance.

MAJOR EVENTS

In March 31, 2006, the Lorain County Regional Airport Authority voted to outsource the management of the Airport to the Johnston Aviation Company; and, as a result, to eliminate substantially its entire employee staff at the Airport. Johnston Aviation Company (which has been managing the Airport's FBO -Fixed Based Operation- since October 2003), assumed the airport management responsibilities effective April 1, 2006. The main objective of the outsourcing was to reduce operating costs at the Airport and reduce County subsidies. This change significantly and positively impacted the Authority's financial statements in 2006.

On July 27, 2006, the Lorain County Court of Common Pleas issued a final judgment settling the lawsuit between the Lorain County Board of Commissioners and the Lorain County Regional Airport Authority filed in October 2005. This final order permitted the dissolution of the Lorain County Regional Airport Authority and the transfer of all of the assets and liabilities of the Lorain County Regional Airport Authority to the Board of Commissioners of Lorain County. Consistent with that order, all of the real property of the Lorain County Regional Airport was transferred to the County on November 8, 2006. The remainder of the personal property was transferred on December 31. All remaining assets and liabilities of the Airport Authority were assumed by the County on January 1, 2007. Effective December 31, 2006, the Airport Authority was formally dissolved by Court order. As we discuss below, the financial statements reflect the net effect of these asset and liability transfers as of December 31, 2006.

The Lorain County Regional Airport is being reported as an enterprise fund within the County of Lorain's Consolidated Annual Financial Report effective January 1, 2007.

FINANCIAL HIGHLIGHTS

The Airport's net assets decreased by $12,100,100 in 2006 from those reported in 2005 due to the transfer of its assets to the County of Lorain.

Operating revenues decreased by $103,123 while operating expenses decreased by $120,086.

Operating revenues reflect an increase in concession and other fees collected by the Airport as a result of increased activity at the Airport during the year. Offsetting this increase in charges for services was a decrease of $117,833 in operating grants received from Lorain County. The County was able to make this reduction in operating grants because of the significantly lower expense levels resulting from outsourcing the management of the Airport in April, 2006.

As a result of the increased charges for services and the decreased expenses, Lorain County was able to reduce its budgeted subsidy to the Airport by 39%.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets provide information about the activities of the Airport and present a longer-term view of the Airport's finances.

THE STATEMENT OF NET ASSETS AND THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

One of the most important questions asked about the Airport's finances is, "Is the Airport better off or worse off as a result of the year's activities?" The Statement of Net Assets, along with the Statement of Revenues, Expenses and Changes in Net Assets report information about the Airport and about its activities in a way that helps to answer this question.

These statements report all of the assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. Along the same lines, all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid, respectively. These statements reflect that the Airport charges fees to customers to help it cover part of the services it provides. The Airport also receives substantial operating grants from Lorain County.

These two statements report the Airport's net assets and changes in them. When reading these statements for this year, the reader must remember that substantially all of the assets and liabilities of the Airport were transferred to Lorain County on or before December 31, 2006. As a result, some of the usual comparisons present in the financial statements are not possible this year.

You can think of the Airport's net assets—the difference between assets and liabilities—as one way to measure the Airport's financial health, or financial position. Over time, increases or decreases in the Airport's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors (e.g. fuel prices, FAA regulations, weather, etc.), to assess the overall health of the Airport.

Table 1 provides a summary of the Airport's net assets for 2006 compared to 2005.

Table 1
NET ASSETS

	2006	2005
ASSETS:		
Current and other assets	$ 48,232	$ 507,916
Capital assets, net	14,957	12,010,867
Total assets	63,189	12,518,783
LIABILITIES:		
Current liabilities	41,495	405,483
Long-term liabilities	101,499	93,005
Total liabilities	142,994	498,488
NET ASSET:		
Invested in Capital Assets, net of related debt	14,957	12,010,867
Restricted for other purposes	0	9,428
Unrestricted	(94,762)	0
Total net assets	$ (79,805)	$12,020,295

Total assets decreased by $ 12,455,594 from 2005 to 2006. This decrease is primarily the result of the transfer of capital assets to Lorain County that occurred during and at the end of the year (as described below) and the payment of vendors who worked on several major airport improvement projects.

Total liabilities decreased by $ 355,494. This decrease is primarily the result of payments made in 2006 to vendors who had performed work on the Airport's security fence and runway improvements in 2005. The Airport received $49,165 in grant funds from the FAA during the year in connection with these improvements.

Long-term liabilities represent future rent credits due under the concession agreement with the FBO operator. Amounts due are reimbursements for improvements made to Airport property by the FBO using its own funds. The rent credits are earned each year subject to a minimum annual rent payment.

Overall, total net assets decreased by $12,100,100. This net decrease is a result of the transfer of capital assets to Lorain County.

As of January 1, 2007, all assets and liabilities of the Lorain County Regional Airport Authority became the responsibility of the Lorain County Board of Commissioners. All leases that the Lorain County Regional Airport had with Airport tenants were assumed with the same terms and conditions that existed previously.

Table 2 shows revenues, expenses, and the changes in net assets for the year ended December 31, 2006 compared to the year ended December 31, 2005.

Table 2
CHANGES IN NET ASSETS

	2006	2005
OPERATING REVENUES		
Charges for services	$ 73,996	$ 62,683
Operating grants and contributions	185,167	303,000
Other operating revenue	17,502	14,105
Total operating revenues	276,665	379,788
NON-OPERATING REVENUES		
Land rentals	43,265	43,265
Interest income	2,293	4,776
Miscellaneous income	0	5,361
Total non-operating income	45,558	53,402
CAPITAL CONTRIBUTIONS	49,165	1,141,545
TOTAL REVENUES AND CAPITAL CONTRIBUTIONS	371,388	1,574,735
OPERATING EXPENSES		
Salaries and employee benefits	80,701	297,692
Depreciation	426,301	350,372
Professional and specialized services	145,757	59,964
Utilities	25,135	23,984
Repairs and maintenance	35,104	73,058
Other operating expenses	90,276	118,290
Total operating expenses	803,274	923,360
NON-OPERATING EXPENSES		
Miscellaneous expenses	97	216
CAPITAL DISTRIBUTIONS	11,668,117	0
TOTAL EXPENSES AND CAPITAL DISTRIBUTIONS	12,471,488	923,576
INCREASE (DECREASE) IN NET ASSETS	(12,100,100)	651,159
NET ASSETS BEGINNING OF YEAR	12,020,295	11,369,136
NET ASSETS END OF YEAR	$ (79,805)	$ 12,020,295

Operating revenues decreased by $103,123 due to a reduction in operating grants received from Lorain County. Lorain County had budgeted operating grants for 2006 that were equal to those in 2005. However, as a result of reduced operating expenses at the Airport resulting from the outsourcing of the Airport's management to a private company, Lorain County was able to reduce its operating grants by $117,833 from the amount budgeted. Please also note the following:

- Ground rental and use fees include annual increases. The increases are based upon a function of the Consumer Price Index.
- Historically, Airport expenses have exceeded revenues. Lorain County has subsidized the Airport's operating shortfall. The subsidy by the County for 2006 was $185,167 compared to

$303,000 in 2005. The subsidies are continuing to decline because of reduced operating expenses and additional revenues from charges for services.

- Capital contributions for 2006 consisted of grants from the Federal Aviation Administration. Grants were received for the Airport's runway and safety area rehabilitation which included runway paving, wildlife hazard assessment, and fencing.

Operating expenses decreased by $120,086. This decrease results form the Airport Authority's decision to outsource the management of the Airport on April 1, 2006. Substantially all of the Airport Authority's personnel positions were eliminated effective March 31. That change reduced salary and employee benefit expenses by $216,991. Professional and specialized services expenses increased $85,793 primarily as a result of the fees paid to Johnston Aviation to manage the Airport (including various accounting, administrative, and equipment maintenance duties).

Depreciation increased as $1,250,517 capital assets became subject to depreciation this year. However, depreciation expense would have been higher except for the transfer of the real property of the Airport Authority on November 8, 2006.

Repairs and maintenance expense declined due to reduced repairs on the FBO building in 2006. Repairs and maintenance on Airport vehicles remained steady between 2006 and 2005.

Capital Assets:

The largest portion of the Airport's net assets each year is comprised of its investment in capital assets, net of related debt (e.g., land, land improvements, buildings, equipment and vehicles). The Airport uses these capital assets to provide services to the businesses and the public using the Lorain County Regional Airport. Displayed below in the first column is the cost of the assets transferred to Lorain County during the year and at the end of the year. The information in the first column is presented for informational and comparison purposes only, as only Construction in Progress of $14,957 appears on the financial statements at the end of the year. The second column shows the cost of the Capital Assets by category for the year ending December 31, 2005 as previously reported.

Table 3
CAPITAL ASSETS

	2006	2005
Land	$ 2,153,589	$ 2,153,589
Construction in Progress	14,957	1,166,967
Land Improvements	11,477,136	10,256,255
Buildings	1,213,490	1,183,854
Equipment	768,051	768,051
Vehicles	185,761	185,761
Capital Assets, Gross	15,812,984	15,714,477
Less Accumulated Depreciation	(4,086,892)	(3,703,610)
Total Capital Assets, Net	$11,726,092	$12,010,867

See Notes 2 and 4 to the basic financial statements for further discussion of the Airport's capital asset policy and changes in capital assets.

All of the capital assets transferred to Lorain County will appear in its financial statements beginning in 2007.

OPERATIONAL HIGHLIGHTS

- The Industrial Park is part of the Airport's overall plan to bring aviation related businesses to Lorain County. The Lorain County Economic Development Department is actively marketing the park to prospective tenants and brokers.
- The Lorain County Regional Airport was selected as one of three test sites nationally for the "Next Generation Air Traffic Control System". The program, which is being spearheaded by NASA, is testing systems that will improve the safety of airport operations.
- The Airport completed its runway safety area and runway improvement projects. The Airport received grants from the FAA for 95% of the costs incurred. In addition, a wildlife hazard assessment was completed in June 2006 and funded with County dollars.
- During the year, a major new tenant relocated its jet charter operation from the Cleveland Hopkins airport. In addition to moving its offices to the Airport, the company relocated several light and medium jets to the Airport's hangars. The relocation has increased flow fees paid to the Airport on the sale of fuel and concession fees paid to the Airport for maintenance work performed.
- During the year, the FAA granted the Lorain County Regional Airport additional funds totaling $150,191 for improvements to the airfield electrical lighting, updating of the airport layout plan, and for design of three new taxiways.

FUTURE OUTLOOK

- Now that the Airport is under the control of the Lorain County government, additional grants and funding from other sources and government agencies (other than the Federal Aviation Administration) are expected to be identified.
- The Economic Development Department has taken direct control of the marketing for the Industrial Park to increase its visibility to potential aviation-related businesses.
- Private developers will be breaking ground in 2007 on two new condominium type hangars west of existing hangars, with each hangar having twelve units. The Federal Aviation Administration has committed to building taxiways to provide access for any aircraft stored in the units to the Airport's runways. The federal government, through a Community Development Block Grant, will be paying 50% of the cost of parking lots, access roads and utilities for the project. This new development is expected to bring additional jobs to the Airport, along with additional charges for services.
- The Federal Aviation Administration's budget for 2007 has not been finalized. We expect that grant dollars will continue to be available to improve Airport safety.
- Initial studies have been completed during the year to extend the active runway from 5,000 feet to 6,300 feet. The lengthening of the runway is a key to encouraging more businesses to the county, including those interested in the Airport's industrial park.

CONTACTING THE AIRPORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide Lorain County citizens, taxpayers, airport users, and all interested parties with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael A. Albanese, at the Lorain County Regional Airport, 44050 Russia Road, Elyria, Ohio 44035. He may be reached at 440-323-7000.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Net Assets – Proprietary Fund
As of December 31, 2006

ASSETS	
Current Assets:	
Cash and cash equivalents	$13,794
Accounts receivable	12,688
Prepaid expenses	21,750
Total current assets	48,232
Non-Current Assets:	
Capital assets:	
Non-depreciable capital assets	14,957
Total non-current assets	14,957
Total assets	$63,189
LIABILITIES	
Current Liabilities:	
Accrued expenses	$ 17,495
Deferred revenue	24,000
Total current liabilities	41,495
Non-Current Liabilities:	
Deferred revenue	101,499
Total non-current liabilities	101,499
Total liabilities	142,994
NET ASSETS	
Invested in capital assets, net of related debt	14,957
Unrestricted	(94,762)
Total net assets	(79,805)
Total Liabilities and Net Assets	$ 63,189

See accompanying notes to the basic financial statements.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2006

OPERATING REVENUES	
Operating grants	$185,167
Charges for services	73,996
Other operating income	17,502
Total operating revenues	276,665
OPERATING EXPENSES	
Salaries and employee benefits	80,701
Depreciation	426.301
Professional and specialized services	145,757
Utilities	25,135
Repairs and maintenance	35,104
Other supplies and expenses	90,276
Total operating expense	803,274
Operating loss	(526,609)
NON-OPERATING REVENUES (EXPENSES)	
Land rentals	43,265
Interest income	2,293
Miscellaneous expense	(97)
Total non-operating revenue (expenses)	45,461
Loss before capital contributions (distributions)	(481,148)
CAPITAL CONTRIBUTIONS	49,165
CAPITAL DISTRIBUTIONS	(11,668,117)
NET ASSETS	
Increase (decrease) in Net Assets	(12,100,100)
Total Net Assets, beginning of year	12,020,295
Total Net Assets, end of year	$ (79,805)

See accompanying notes to the basic financial statements.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Cash Flows – Proprietary Fund
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 55,586
Payments for employee services and benefits	(113,339)
Operating grants	185,167
Other receipts (payments)	(309,270)
Net cash used for operating activities	(181,856)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	49,165
Acquisition of capital assets	(68,871)
Decrease in grants receivable	301,388
Decrease in construction accounts payable	(318,617)
Other receipts	43,168
Net cash provided by capital and related financing activities	6,233
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	2,293
Net cash provided by investing activities	2,293
Net decrease in cash and cash equivalents	(173,330)
Cash and cash equivalents – beginning of year	187,124
Cash and cash equivalents – end of year	$ 13,794
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES	
Operating (loss)	$(526,609)
Adjustments to reconcile operating income to net cash used by operating activities:	
Deferred rent	(21,143)
Depreciation	426,301
Change in assets and liabilities:	
Accounts receivable	(6,284)
Prepaid expenses	(8,750)
Accounts and other payables	(40,575)
Accrued expenses	(4,796)
Net cash used for operating activities	$(181,856)

See accompanying notes to the basic financial statements.

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Note 1. Reporting Entity

The Lorain County Regional Airport Authority, Lorain County, Ohio (the Airport) was established pursuant to Ohio Revised Code Section 308.03 by resolution of the Lorain County Commissioners. The Airport is governed by a nine member Board of Trustees (Board), all of whom are appointed by the Lorain County Commissioners. The Board has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name, the power to establish and collect rates, rentals and other charges, the authority to acquire, construct, operate, manage and maintain airport facilities, the authority to buy and sell real and personal property, and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Lorain County has contributed money to the Airport to continue operations. Since the Airport imposes a financial burden on the County, the Airport is reported as a component unit of Lorain County.

The reporting entity for the Airport is comprised of all departments, boards and agencies that are not legally separate from the Airport, any component units of the Airport and any other organizations that would need to be included to ensure that the financial statements of the Airport are not misleading.

Component units are legally separate organizations for which the Airport is financially accountable. The Airport is financially accountable for an organization if the Airport appoints a voting majority of the organization's governing board and (1) the Airport is able to significantly influence the programs or services performed or provided by the organization; or (2) the Airport is legally entitled to or can otherwise access the organization's resources; the Airport is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Airport is obligated for the debt of the organization. Based on the application of these criteria, the Airport has no component units.

On December 31, 2006 control of the Lorain County Regional Airport was transferred to the Lorain County Commissioners, and the Lorain County Regional Airport Authority was dissolved.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Airport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Airport also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Airport's accounting policies are described below.

<u>Basis of Presentation</u>
The Airport's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Airport uses a single enterprise fund 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.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Note 2. Summary of Significant Accounting Policies (Continued)

Measurement Focus

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

Basis of Accounting

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

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

Estimates

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Airport considers all highly liquid investments with a maturity of three months or less (demand deposits with banks) to be cash equivalents. During 2006, Airport investments were limited to interest bearing deposit accounts.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the Airport, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Airport's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At year-end the airport reported a deficit of $94,762 in unrestricted net assets.

Operating revenues and expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services and other operating income. Operating expenses are the necessary costs incurred to provide the goods or service that are the primary activity of the Airport. Revenues and expenses not meeting these definitions are reported as non-operating.

Grants

Grants received for the acquisition or construction of capital assets, are recorded as capital contributions when earned. Grants are earned when costs relating to such capital assets, which are reimbursable under the terms of the grants, have been incurred.

Note 2. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, including infrastructure assets, purchased or constructed by the Airport are recorded at original cost. Land improvements, buildings, equipment and vehicles are depreciated using the straight-line method over the estimated useful lives of the assets. A useful life of 20 to 40 years is used for land improvements and buildings, and 5 to 15 years is used for equipment and vehicles.

Costs and related accumulated depreciation of capital assets sold or otherwise retired are removed from the accounts, and gains or losses on disposition are credited to or charged against income.

Routine maintenance, repairs, renewals, and replacement costs are charged against income. Expenses which materially increase values or extend useful lives are capitalized.

The Airport's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project, and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2006 no interest costs were incurred on construction projects for the Airport.

Note 3. Deposits

The following information is provided to give an indication of the steps the Airport takes to protect its cash deposits and the level of risk assumed for certain investments.

Ohio Revised Code authorizes the Airport to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; obligations of the United States government, its agencies and instrumentalities; bonds and other obligations of the State of Ohio; certain money market mutual finds and secured repurchase agreements and the State Treasurer's investment pool. Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited.

At year-end, the carrying amount of the Airport's deposits was $13,794 (which includes petty cash of $111) and the bank balance was $25,605. The bank balance was covered by federal depository insurance provided by the Federal Deposit Insurance Corporation (FDIC). Although securities were held by the pledging financial institutions trust department or agent in the Airport's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Airport to a successful claim by the FDIC.

The Airport had no investments at December 31, 2006.

Note 4. Changes in Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	Balance 12/31/05	Additions	Deletions	Balance 12/31/06
Capital Assets, not being depreciated:				
Land	$ 2,153,589	-	$ (2,153,589)	-
Construction in progress	1,166,967	$68,871	(1,220,881)	$14,957
	3,320,556	68,871	(3,374,470)	14,957
Capital Assets, being depreciated:				
Land improvements	10,256,255	1,220,881	(11,477,136)	-
Buildings	1,183,854	29,636	(1,213,490)	-
Equipment	768,051	-	(768,051)	-
Vehicles	185,761	-	(185,761)	-
Total Capital Assets being depreciated	12,393,921	1,250,517	(13,644,438)	-
Less accumulated depreciation:				
Land improvements	(3,062,419)	(331,581)	3,394,000	-
Buildings	(188,183)	(17,452)	205,635	-
Equipment	(320,526)	(28,766)	349,292	-
Vehicles	(132,482)	(5,483)	137,965	-
Total Accumulated Depreciation	(3,703,610)	(383,282)	4,086,892	-
Capital Assets, Net	$12,010,867	$936,106	$(12,932,016)	$14,957

In keeping with the transfer of control of operations and management of the Airport to Lorain County, ownership of the real property of the Airport was transferred to Lorain County on November 8, 2006. Tangible personal property (equipment, vehicles) was transferred on December 31, 2006.

Note 5. Receivables

In the normal course of operating the Airport, credit is granted to Airport tenants and customers. The Board believes no allowance for receivables doubtful of collection is necessary, and none has been provided.

Note 6. Lease of Premises

Various lease agreements have been entered into for office, hangar, and land rental through December 1, 2018, with options to extend the lease terms. Future base rental income for the leases as of December 31, 2006 is as follows:

2007	$ 85,611
2008	85,611
2009	85,611
2010	49,557
2011	42,346
Thereafter	118,823

Note 6. Lease of Premises (Continued)

Two 99 year lease agreements have also been entered into for land rental of various parcels of land totaling 3.6475 acres and are renewable forever. The leases provide for a base ground rental use of $11,972 adjusted upward yearly by a function of the Consumer Price Index. For the year ended December 31, 2006 rental income was $12,801.

Various lease agreements have been entered into for office space on a month-to-month basis. Rental income from these rentals was $1,836 for the year ended December 31, 2006.

Note 7. Pension Plan

The Airport participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-5601.

For the year ended December 31, 2006, the members of all three plans were required to contribute 9.0 percent of their annual covered salaries. The Airport's contribution rate for pension benefits for 2006 was 13.70 percent. The Ohio Revised Code provides statutory authority for member and employer contributions. The Airport's contribution to OPERS for the years ending December 31, 2006, 2005 and 2004 was $7,150, $38,048 and $36,269 respectively, equal to the required contributions for those years.

Note 8. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in Note 7, OPERS provides post retirement health care coverage to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post employment health care coverage. In order to qualify for post retirement health care coverage, age and service retirees under the Traditional Pension and Combined Plans must have ten or more years of qualifying Ohio Service credit. Health care coverage for disability recipients and qualified survivor benefit recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12.

Note 8. Other Post Employment Benefits (OPEB) (Continued)

A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2006 employer contribution rate was 13.70% of covered payroll and 4.5% was used to fund health care for the year.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 2005, include a rate of return on investments of 6.5%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.3% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25% of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund Post Employment Benefits were $2,360. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2005, (the latest information available) were $11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were $31.3 billion and $20.2 billion, respectively.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that can be used to fund future health care expenses.

Note 9. Rick Management

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injury to employees; and natural disasters. Through Lorain County, the Airport is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management program. CORSA insures the Airport for general liability, errors and omissions, property and automobile. The Airport has purchased commercial insurance for aviation and airport and hangerkeepers liability. The Airport also carries employee health and accident insurance and a bond on key management positions. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 10. Contingent Liabilities

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to the grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2006.

Note 11. Dissolution of Lorain County Regional Airport Authority

On July 27, 2006, the Lorain County Court of Common Pleas issued a final judgment settling the lawsuit between the Lorain County Board of Commissioners and the Lorain County Regional Airport Authority filed in October 2005. This final order permitted the dissolution of the Lorain County Regional Airport Authority and the transfer of all of the assets and liabilities of the Lorain County Regional Airport Authority to the Board of Commissioners of Lorain County. Consistent with that order, all of the real property of the Lorain County Regional Airport was transferred to the County on November 8, 2006. The remainder of the personal property was transferred on December 31. All remaining assets and liabilities of the Airport Authority were assumed by the County on January 1, 2007. Effective December 31, 2006, the Airport Authority was formally dissolved by Court order.

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

Lorain County Regional Airport Authority
Lorain County
44050 Russia Road
Elyria, Ohio 44035

To the Lorain County Commissioners:

We have audited the financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport) a component unit of Lorain County, as of and for the year ended December 31, 2006, and have issued our report thereon dated August 23, 2007, wherein we noted the Airport Authority was dissolved by order of the Lorain County Common Pleas Court effective December 31, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Airport's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Airport's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Airport's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Airport's internal control will not prevent or detect a more than inconsequential financial statement misstatement.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Airport's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all internal control deficiencies that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

As part of reasonably assuring whether the Airport'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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We intend this report solely for the information and use of management and the County Commissioners. We intend it for no one other than these specified parties.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 23, 2007

Mary Taylor, CPA
Auditor of State

REGIONAL AIRPORT 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 18, 2007

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
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