PORT AUTHORITY
ALLEN COUNTY

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

Mary Taylor, CPA
Auditor of State

PORT AUTHORITY
ALLEN COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Port Authority
Allen County
144 South Main Street
Lima, Ohio 45801

To the Board of Directors:

We have audited the accompanying financial statements of the Port Authority, Allen County, (the PAAC), a component unit of Allen County, as of and for the years ended December 31, 2008 and 2007, which comprise the PAAC's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the PAAC'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 Port Authority, Allen County, as of December 31, 2008 and 2007, and the changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2009, on our consideration of the PAAC'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.

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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, CPA
Auditor of State

June 23, 2009

PORT AUTHORITY
ALLEN COUNTY

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
UNAUDITED

The discussion and analysis of the Port Authority of Allen County's (the PAAC) financial performance provides an overall view of the PAAC's financial activities for the years ended December 31, 2008 and 2007. The intent of this discussion and analysis is to look at the PAAC's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the PAAC's financial performance.

Financial Highlights

- Total Net Assets at year-end for 2008 and 2007 were $1,145,215 and $2,465,495 respectively.

Using This Annual Financial Report

This report consists of three parts, Management's Discussion and Analysis (MD&A), the basic financial statements, and notes to those statements. The basic financial statements include a statement of net assets, a statement of revenues, expenses and changes in net assets, and a statement of cash flows.

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

Table 1 provides a summary of the PAAC's net assets for fiscal year 2008 compared to fiscal years 2007 and 2006.

Table 1
Net Assets

	2008	2007	2006
Assets			
Cash	$ 188,580	$ 519,175	$ 874,080
Loans/Notes Receivable	238,175	1,226,115	912,585
Depreciable Capital Assets	22,691	24,436	26,181
Non-depreciable Capital Assets	695,769	695,769	695,769
Total Assets	1,145,215	2,465,495	2,508,615
Liabilities			
Current Liabilities			464,359
Total Liabilities			464,359
Net Assets			
Invested in Capital Assets	718,460	720,205	721,950
Unrestricted	426,755	1,745,290	1,322,306
Total Net Assets	$1,145,215	$2,465,495	$2,044,256

Total assets decreased by $1,320,280, or 53.6 percent from fiscal year 2007 to 2008. Total assets decreased by $43,120 or 1.7 percent from fiscal year 2006 to 2007. Cash decreased by $330,595 in 2008 over 2007 and decreased $354,905 in 2007 over 2006. During 2008 loans receivable decreased $987,940 and in 2007, loans receivable increased by $313,530. During 2007, total liabilities decreased by $464,359. For 2008, the decrease in total assets and cash was due, in part, to the transfer of the revolving loan activity to Allen County.

The Statement of Revenues, Expenses, and Changes in Net Assets shows the cost of operating expenses and the revenues offsetting those services. Table 2 shows the total amount of operating and non-operating expenses and the revenues associated with those expenses for the year. That is, it identifies the amount of operating expenses supported by operating funding sources.

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
UNAUDITED
(Continued)

The following is a comparison of 2008 compared with 2007 and 2006.

Table 2
Change in Net Assets

	2008	2007	2006
Operating Revenue			
Railroad Rent	$ 2,400	$ 2,400	$ 5,000
Interest and Fee Income from Loans	3,718	42,140	23,660
Application Fees		6,195	
Other Receipts			3,959
Total Operating Revenues	6,118	50,735	32,619
Operating Expenses			
Depreciation	1,745	1,745	
Technical Assistance	6,570	40,587	19,052
Insurance	100	100	100
Bank Fees	708	1,163	904
Publications		247	584
Dues		350	170
Miscellaneous	264	3,775	50
Total Operating Expenses	9,387	47,967	20,860
Non-Operating Revenues and (Expenses)			
Grants Received - Federal		378,000	
Grants Disbursed	(100,000)		(53,500)
Bank Interest Income	5,574	40,471	39,228
Cash Transfer to Allen County Commissioners	(243,505)		
Capital Contributions			148,435
Total Non-Operating Revenues and (Expenses)	(337,931)	418,471	134,163
Extraordinary item			
Transfer of receivables to Allen County Commissioners	(979,080)		
Restatement - See Note 3			(107,855)
Increase/(Decrease) in Net Assets	(1,320,280)	421,239	38,067
Net Assets at Beginning of Year	2,465,495	2,044,256	2,006,189
Net Assets at End of Year	$1,145,215	$2,465,495	$2,044,256

The transfer of the revolving loan fund activity represented 74.2 percent of the net loss for 2008. Technical Assistance comprises 70.0 percent and 84.6 percent of operating expenses for 2008 and 2007, respectively.

Capital Assets

At the end of fiscal years 2008 and 2007, the PAAC had $718,460 and $720,205 respectively invested in land and infrastructure. The PAAC holds various properties for investment for future sale. See Note 6 for further information.

Debt

At January 1, 2007, the PAAC had outstanding debt in the amount of $464,359 payable to the Allen County Commissioners. This debt was repaid in its entirety during 2007.

Contacting The PAAC's Financial Management

This financial report is designed to provide citizens with a general overview of the PAAC's finances and to show the PAAC's accountability for the money it receives. If you have questions about this report or need additional information contact Mr. Jeffrey Sprague, Chairman of the Port Authority of Allen County, 144 South Main Street Lima, Ohio 45801 or e-mail at spraguej@aedg.org.

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PORT AUTHORITY
ALLEN COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	2007
Current Assets		
Cash	$188,580	$519,175
Loans Receivable	238,175	1,226,115
Total Current Assets	426,755	1,745,290
Non Current Assets		
Depreciable Captial Assets	22,691	24,436
Nondepreciable Capital Assets	695,769	695,769
Total Non Current Assets	718,460	720,205
Total Assets	1,145,215	2,465,495
Net Assets		
Invested in Capital Assets, Net of Related Debt	718,460	720,205
Unrestricted	426,755	1,745,290
Total Net Assets	$ 1,145,215	$ 2,465,495

See accompanying notes to basic financial statements.

PORT AUTHORITY
ALLEN COUNTY

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007

	2008	**2007**
Operating Revenues		
Railroad Rent	$2,400	$2,400
Interest Income from Loans	3,718	42,140
Application Fee Income From Loans		6,195
Total Operating Revenues	6,118	50,735
Operating Expenses		
Depreciation	1,745	1,745
Technical Assistance	6,570	40,587
Insurance	100	100
Bank Fees	708	1,163
Publications		247
Dues		350
Miscellaneous	264	3,775
Total Operating Expenses	9,387	47,967
Operating Income	(3,269)	2,768
Non operating Revenues/Expenses		
Grants Received		378,000
Grants Disbursed	(100,000)	
Bank Interest Income	5,574	40,471
Cash Transfer to County Commissioners	(243,505)	
Total Non operating Revenues/Expenses	(337,931)	418,471
Extraordinary Item (See Note 2.K)		
Transfer of receivables to Allen County Commissioners	(979,080)	
Net Income	(1,320,280)	421,239
Net Assets - Beginning of Year (Restated - See Note 3)	2,465,495	2,044,256
Net Assets - End of Year	$1,145,215	$2,465,495

See accompanying notes to the basic financial statements.

PORT AUTHORITY
ALLEN COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Cash Flows From Operating Activities		
Railroad Rent	$2,400	2,400
Interest Receipts on Loan Receivables	3,718	42,140
Principal Receipts on Loans	8,860	99,470
Application Income From Loan Receivables		6,195
Cash Payments for Goods or Services	(7,642)	(46,222)
Loans Disbursed		(35,000)
Net Cash Used in Operating Activities	7,336	68,983
Cash Flows From Non Capital Financing Activities		
Grants Received		378,000
Grants Disbursed	(100,000)	(378,000)
Net Cash Provided by Capital Financing Activities	(100,000)	
Cash Flows From Capital Financing Activities		
Cash Proceeds From Sale of Property	238,305	
Capital Purchase of Property	(238,305)	
Cash Transfer to County Commissioners	(243,505)	
Principal Payments on Debt		(464,359)
Net Cash Provided by Capital Financing Activities	(243,505)	(464,359)
Cash Flows From Investing Activities		
Interest Income from Bank	5,574	40,471
Net Cash from Investing Activities	5,574	40,471
Net Increase (Decrease) in Cash	(330,595)	(354,905)
Cash at January 1	519,175	874,080
Cash at December 31	188,580	519,175
Reconciliation of operating income to net cash provided by operating activities		
Operating Income	(3,269)	2,768
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	1,745	1,745
(Increase) Decrease in Loans Receivable	8,860	64,470
Net cash provided by (used for) operating activities	$7,336	$68,983

See accompanying notes to the basis financial statements.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF THE ENTITY

The Port Authority of Allen County, (the PAAC) was created pursuant to Sections 4582.202 through 4582.58, inclusive, of the Ohio Revised Code for the purpose of promoting the manufacturing, commerce, distribution and research and development interests of Allen County including rendering financial and other assistance to such enterprises situated in Allen County and to induce the location in Allen County of other manufacturing, commerce, distribution and research entities; to purchase, subdivide, sell and lease real property in Allen County and erect or repair any building or improvement for the use of any manufacturing, commerce, distribution, or research and development enterprise in Allen County.

The Port Authority is considered a component unit of Allen County.

The Port Authority Board of Directors consists of the number of Directors it deems necessary and they are appointed by the Allen County Commissioners. Currently, eight Directors serve on the Board.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the PAAC have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to a governmental nonprofit organization. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Academy also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities, provided they do not conflict with or contradict GASB pronouncements.

The more significant of the PAAC's accounting policies are described below.

A. Basis of Presentation

The PAAC's basic financial statements consist of a statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. The PAAC uses enterprise accounting to track and report on its financial activities. Enterprise fund reporting focuses on the determination of the change in net assets, financial position, and cash flows.

B. Measurement Focus

Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statements 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 PAAC finances and meets the cash flow needs of its enterprise activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting

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

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Revenues resulting from non-exchange transactions, in which the PAAC receives value without directly giving equal value in return, such as grants and entitlements, are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the PAAC must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to PAAC on reimbursement basis.

Expenses are recognized at the time they are incurred.

D. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

2. Estimated Resources

Estimated resources include estimates of cash to be received (budgeted receipts) plus cash as of January 1.

3. Encumbrances

The Ohio Revised Code requires the PAAC to reserve (encumber) appropriations when commitments are made. The PAAC did not use the encumbrance method of accounting.

E. Cash and Cash Equivalents

The PAAC's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

The PAAC's funds are held in checking and savings accounts.

For the purposes of the statement of cash flows and for presentation on the statement of net assets, investments with original maturities of three months or less at the time they are purchased by the PAAC are considered to be cash equivalents.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Depreciable capital assets are amortized using the straight-line method for a period of 38 years.

G. Loans Receivable

Loans receivable represent loans to companies that have been awarded loans under the revolving loan program through the Small Cities Community Development Block Grant Program and loans to not-for-profit entities for economic development projects.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings 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 the enabling legislation adopted by the PAAC or through external restrictions imposed by creditor, grantor, or laws or regulations of other governments. There were no assets restricted by enabling legislation.

The PAAC applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the PAAC, these revenues are primarily rental income and principal and interest loan repayments. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the PAAC. Revenues and expenses not meeting this definition are reported as non-operating.

J. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

K. Extraordinary Item

During 2008, the Allen County Commissioners requested control of the outstanding loan balances related to the Community Development Revolving Loan Program. The PAAC transferred these loan receivable balances in the amount of $979,080 to the Commissioners. This agreement also included a separate cash balance transfer of $243,505.

3. RESTATEMENT OF NET ASSETS (Continued)

The net assets of the PAAC were restated in relation to accounting changes for capital assets and to report infrastructure and related depreciation. The restatement was to reduce the railroad land to actual cost and add the railroad track infrastructure. The restatement had the following effects on net assets of the PAAC as previously reported:

Net Assets - December 31, 2006	$2,152,111
Depreciable Capital Assets (Railroad)	26,181
Non-depreciable Capital Assets (Land)	(134,036)
Net Assets - January 1, 2007	$2,044,256

4. DEPOSITS AND INVESTMENTS

State statues require the classification of the monies held by the PAAC into three categories:

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the PAAC Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive monies are public deposits that the PAAC has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including but not limited to passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim monies must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings accounts including but not limited to passbook accounts.

Interim monies are to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. DEPOSITS AND INVESTMENTS (Continued)

4. Bonds and other obligations of the State of Ohio, or Ohio local governments;

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

6. The State Treasurer's investment pool (STAR Ohio);

Investments in stripped principal or interest obligations reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the Academy, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Deposits - Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned to it. Protection of the PAAC's cash and deposits is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions must collateralize all public deposits.

At December 31, 2008 and 2007, the carrying amount of the PAAC's deposits was $188,580 and $519,175, respectively. The PAAC's deposits were insured by Federal depository insurance for 2008 and 2007 in the amounts of $250,000 and $100,000 respectively. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures,* December 31, 2008 the PAAC's bank balance of $188,580 was fully insured and at December 31, 2007, $883,534 of the PAAC's bank balance of $983,534, was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the PAAC's name.

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

5. LOANS RECEIVABLE

During 2008 and 2007, the PAAC received periodic loan repayments from companies awarded loans under the revolving loan program through the Small Cities Community Development Block Grant Program. The revolving loan program activity was transferred to Allen County during 2008. (See Note 2.K)

Local Development Loans

In July of 1998, a loan was made to the Lima Growth Association for the purpose of developing infrastructure for three lots numbered one, four, and five within the Shawnee Industrial Park. The loan was issued in the amount of $200,000 with an interest rate of four percent and will become due and payable upon the sale of the property, but not later than three years from the date of the promissory note.

5. LOANS RECEIVABLE (Continued)

During 2001, Lima Growth requested extension of the loan for another three years. Lot numbers one and four were sold in December 2003 and February 2001, respectively. There have been no repayments on this loan, nor was there activity during this two year period. The loan balances as of December 31, 2008 are as follows:

Outstanding Loans	December 31, 2008
Lima Growth Association	$200,000
Allen County Development Corporation	38,175
Total Loans	$238,175

6. CAPITAL ASSETS

The PAAC had $695,769 in non-depreciable capital assets at December 31, 2008 and 2007. This was composed of various land properties in Allen County. There were no additions to capital assets during 2008 and 2007.

Capital assets included the following:

Bible Road Property - During August 1986, the PAAC purchased 54.81 acres of land in the Bible Road Industrial Park. The land was recorded at cost. There are 25.21 acres remaining which has a remaining value of $155,305.

Market Street Property - During November of 1997, the Allen County Commissioners deeded land to the PAAC which was recorded at fair market value. In March and June of 1998, the Allen County Commissioners deeded additional land with a building (which was torn down) to the PAAC which was also recorded at fair market value. The total value recorded was $318,300. This land was leased to Allen County Properties for the construction and operation of a hotel in downtown Lima. The lease is for 99 years at $1.00 per year.

Railway - The PAAC holds approximately 44 percent interest in a railway which it leases to a private railroad company. Monthly rental fees are $200. The lease began on December 17, 2004 and will continue through December 31, 2014 and thereafter from year to year until terminated by either party. The recorded value is $33,164 for the land and a historical cost of $66,327 for the track. Total accumulated depreciation on the track for 2008 and 2007 was $43,636 and $41,891 respectively.

Shawnee Industrial Park – During August 1999, the Allen County Commissioners deeded land to the PAAC to be used for economic development. The land was recorded at the fair market value of $189,000.

7. RISK MANAGEMENT

The PAAC has obtained commercial insurance for the risk of public employee dishonesty. Allen County maintains an umbrella liability insurance policy that covers any property that has been transferred by the County to the PAAC for economic development purposes.

8. CONTINGENCY

Railroad property was transferred to the Allen and Van Wert Port Authorities, and a security deposit was made in the amount of Three Hundred Eighty Thousand Dollars ($380,000) and given proportionately to each Port Authority according to their share in the railroad.

The security deposit was to guarantee the performance of the duties of the Allen-Van Wert Railroad Company (“Railroad”). The security deposit or a portion thereof shall be returned to the “Railroad” only under the following conditions:

a) Upon termination of the agreement with the Port Authorities; and

b) If the railroad property is removed or sold then the “Railroad” which has rights to the railroad operation will receive 10 percent from the net proceeds of the sale of the railroad not to exceed the $380,000.

The Allen County Port Authority’s share of the security deposit under the agreement was 44 percent, or One Hundred Sixty-seven Thousand Two Hundred Dollars ($167,200).

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Mary Taylor, CPA
Auditor of State

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

Port Authority
Allen County
144 South Main Street
Lima, Ohio 45801

To the Board of Directors:

We have audited the financial statements of the Port Authority, Allen County, (the PAAC); a component unit of Allen County, as of and for the years ended December 31, 2008 and 2007, and have issued our report thereon dated June 23, 2009. 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 PAAC'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 PAAC's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the PAAC's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 PAAC'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 PAAC's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2008-002.

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

Internal Control Over Financial Reporting
(Continued)

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. However, we believe the significant deficiency described above, as finding number 2008-002, is a material weakness.

We also noted certain internal control matters that we reported to the PAAC's management in a separate letter dated June 23, 2009.

Compliance and Other Matters

As part of reasonably assuring whether the PAAC'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 instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items: 2008-001 and 2008-002.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

June 23, 2009

SCHEDULE OF FINDINGS
DECEMBER 31, 2006 AND 2005

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

FINDING NUMBER - 2008-001

NON COMPLIANCE - Prior Certification for Obligations

Ohio Rev. Code Section 5705.41(D) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. **"Then and Now" certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Port Authority can authorize the drawing of a warrant for the payment of the amount due. The Port Authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

   Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Port Authority.

2. **Blanket certificate** – Fiscal officers may prepare "blanket" certificates not exceeding an amount established by resolution or ordinance adopted by the legislative authority against any specific line item account over a period not running beyond the current year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. **Blanket certificate** – The Port Authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any one line item appropriation.

During 2008 and 2007, the Port Authority did not certify the availability of funds for any transactions. Failure to properly certify the availability of funds can result in overspending and negative fund cash balances.

FINDING NUMBER - 2008-001
(Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Port Authority's funds exceeding budgetary spending limitations, the Port Authority should certify that the funds are or will be available prior to the obligation. When prior certification is not possible, "then and now" certification should be used.

The Port Authority should certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Acting Secretary and Board should sign the certification at the time the Port Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied.

Client Response:

The client chose not to respond to the above comment.

FINDING NUMBER - 2008-002

NONCOMPLIANCE/MATERIAL WEAKNESS - Accountability for Capital Assets

Ohio Administrative Code Section 117-2-02(A) requires that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by rule 117-2-03 of the Administrative Code.

Ohio Administrative Code Section 117-2-02(D)(c) states capital asset records should include such information as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, location, and tag number. Local governments preparing financial statements using generally accepted accounting principles may want to maintain additional data. Capital assets are tangible assets that normally do not change form with use and should be distinguished from repair parts and supply items.

The Port Authority did not record the railroad track as infrastructure for 2007 or 2008 and the railroad land amount recorded on the financial statements was not based on original cost. The amount reported for land was reduced from \$167,200 to \$33,164. The railroad track infrastructure was added at a cost of \$66,327 with associated total accumulated depreciation of \$41,891 for 2007 and \$43,636 for 2008. These adjustments have been made to the financial statements. In addition, the Port Authority had not adopted a capital asset policy.

The Port Authority should maintain capital asset records which include information such as the original cost, acquisition date, voucher number, the asset type (land, building, vehicle, etc.), asset description, depreciation schedule, and location. In addition, a detailed capital asset policy should be adopted which would include but not be limited to; asset versus maintenance classification, capitalization threshold, depreciation method and schedule of useful lives, and disposal procedures.

Client Response:

The client chose not to respond to the above comment.

PORT AUTHORITY
ALLEN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2008 AND 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; *Explain*:
2006-001	Ohio Rev. Code Section 5705.41(D); Prior certification was not obtained for obligations.	No	Repeated as 2008-001
2006-002	Default Status of Loans Payable	Yes	

ALLEN COUNTY PORT AUTHORITY

ALLEN 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
JULY 30, 2009