

Butler County Port Authority

Regular Audit

January 1, 2009 through December 31, 2009

Fiscal Year Audited Under GAGAS: 2009



Balestra, Harr & Scherer, CPAs, Inc.

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Mary Taylor, CPA
Auditor of State

Board of Trustees
Butler County Port Authority
315 High Street
Hamilton, Ohio 45011

We have reviewed the *Independent Auditor's Report* of the Butler County Port Authority, Butler County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2009 through December 31, 2009. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 10, 2010

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Butler County Port Authority
Butler County, Ohio

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Independent Auditor's Report

Members of the Board
Butler County Port Authority
315 High Street
Hamilton, Ohio 45011

We have audited the accompanying financial statements of the business-type activities of Butler County Port Authority, Butler County, Ohio (the Authority), as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Butler County Port Authority, Butler County, Ohio, as of December 31, 2009, and the respective changes in financial position and where applicable, cash flows for the year 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 30, 2010, on our consideration of the 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. 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 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.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer".

Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2010

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BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(UNAUDITED)

The discussion and analysis of the Butler County Port Authority (the "Port Authority") financial performance provides an overall review of the financial activities for the year ended December 31, 2009. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

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

Financial Highlights

Key financial highlights for 2009 are as follows:

- 2009 continued with the Port Authority's first large construction contract with ATCS/Shook on the Middletown Regional Hospital deconstruction project resulting in project expenses of \$5,629,745.
- The ending cash balance was \$346,188 or 78 percent greater than 2008 thanks in large part of the operating contribution from the Butler County Commission and project administrative fees earned.
- Operating expenses were \$141,494 while nonoperating expenses of \$5,637,546 related to the deconstruction project were reimbursed through project coordination agreements and a state grant.
- The Port Authority received an application fee from Greenwood Fuels LLC as part of the Recovery Zone Facility Bond request for proposals. The project is slated to begin in 2010. The Port Authority also started discussions with Intelligrated and the State of Ohio for a project that will have a financial impact in 2010.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(UNAUDITED)

Using this Financial Report

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

Statement of Net Assets

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

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

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

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

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

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(UNAUDITED)

Table 1 provides a summary of the Port Authority's net assets for 2008 and 2009.

Table 1 - Net Assets

	<u>2008</u>	<u>2009</u>
Assets:		
Current and other assets	\$2,248,481	\$500,441
Long term assets	17,420,000	17,015,000
Total Assets	<u>19,668,481</u>	<u>17,515,441</u>
Liabilities:		
Current liabilities	2,453,888	653,068
Long term liabilities	17,015,000	16,590,000
Total Liabilities	<u>19,468,888</u>	<u>17,243,068</u>
Net Assets:		
Restricted	131,850	98,239
Unrestricted	67,743	174,134
Total Net Assets	<u>\$199,593</u>	<u>\$272,373</u>

During 2009, the Port Authority saw project activity increase as the Port Authority continued the demolition of the Middletown Regional Hospital. The largest decreases in assets and liabilities related to items that were either due from the Hospital for the match portion of the project or the State for the Clean Ohio Revitalization Fund grant reimbursement as receivables and payables in 2008.

Table 2 - Changes in Net Assets

	<u>2008</u>	<u>2009</u>
Operating Revenues:		
Local contributions	\$50,000	\$150,000
Administrative Fees	127,170	97,365
Other operating revenues	100	10
Total Revenues	<u>177,270</u>	<u>247,375</u>
Operating Expenses:		
Salaries	44,000	78,283
Fringe Benefits	19,004	26,351
Legal fees	6,461	8,159
Accounting service	16,863	9,496
Administration	15,255	7,210
Insurance	3,241	3,487
Intergovernmental	8,710	8,508
Total Expenses	<u>113,534</u>	<u>141,494</u>
Operating Income	<u>63,736</u>	<u>105,881</u>

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2009
(UNAUDITED)

	2008	2009
Nonoperating Revenues (Expenses):		
Interest	\$329	\$1,099
Clean Ohio Revitalization Fund	527,018	1,092,892
Capital Grants	1,666,782	4,510,454
Capital Distributions	(2,013,665)	(5,629,745)
Legal Fees related to Projects	(43,605)	(7,801)
Total Nonoperating Revenue (Expense)	<u>136,859</u>	<u>(33,101)</u>
Increase in Net Assets	200,595	72,780
Net Assets, Beginning of Year	<u>(1,002)</u>	<u>199,593</u>
Net Assets, End of Year	<u>\$199,593</u>	<u>\$272,373</u>

The Port Authority saw increased activity during 2009 compared with 2008 as deconstruction and other professional services expenses for the Middletown Regional Hospital project was underway during 2009. The Port Authority decreased project administration fees by 23% for 2009. The operating expenses increase during 2009 was the result of having a full time Executive Director.

Capital Assets

The Port Authority had no capital assets at December 31, 2009.

Debt

The Port Authority had no debt at December 31, 2009.

Contacting the Port Authority

This financial report is designed to provide a general overview of the finances of the Butler County Port Authority and to show the Port Authority's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Butler County Port Authority, 315 High Street, Hamilton, Ohio 45011 or by calling (513) 785-6302.

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2009**

ASSETS:

CURRENT ASSETS:

Cash and Cash Equivalents	\$ 181,556
Restricted Cash and Cash Equivalents	164,632
Accounts Receivables	154,253
TOTAL CURRENT ASSETS	500,441

LONG TERM ASSETS:

Receivable from YMCA	17,015,000
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TOTAL ASSETS	17,515,441
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LIABILITIES:

CURRENT LIABILITIES:

Accounts Payable	4,316
Contracts Payable	218,880
Accrued Wages	4,872
Current Portion of Revenue Bonds Payable	425,000
TOTAL CURRENT LIABILITIES:	653,068

LONG TERM LIABILITIES:

Revenue Bonds Payable	16,590,000
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TOTAL LIABILITIES	17,243,068
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NET ASSETS:

Restricted:	
Capital Projects	98,239
Unrestricted Net Assets	174,134

TOTAL NET ASSETS	\$ 272,373
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See accompanying notes to the basic financial statements

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2009**

OPERATING REVENUES:

Administrative Fees	\$ 247,365
Other Revenues	<u>10</u>
Total Operating Revenues	<u>247,375</u>

OPERATING EXPENSES:

Salaries	78,283
Fringe Benefits	26,351
Insurance	3,487
Legal Fees - Operating	8,159
Accounting	9,496
Other General Administration	7,210
Intergovernmental	<u>8,508</u>
Total Operating Expenses	<u>141,494</u>
Operating Income	<u>105,881</u>

NONOPERATING REVENUES (EXPENSES):

Interest	1,099
Clean Ohio Revitalization Fund Grant	1,092,892
Legal Fees related to projects	(7,801)
Capital Grants	4,510,454
Capital Distributions	<u>(5,629,745)</u>
Total Nonoperating Revenues (Expenses)	<u>(33,101)</u>

CHANGE IN NET ASSETS

	72,780
Net Assets Beginning of Year	<u>199,593</u>
Net Assets End of Year	<u><u>\$ 272,373</u></u>

See accompanying notes to the basic financial statements

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2009**

Cash flows from operating activities:

Cash received from customers	\$ 247,365
Cash payments to employees for services	(105,857)
Cash payments to supplier for goods and services	(37,474)
Cash received from other sources	10
Net cash provided by operating activities	104,044

Cash flows from capital related activities:

Capital grants received for construction project	7,503,298
Capital distributions for construction project	(7,424,530)
Other professional services for construction project	(7,379)
Net cash provided by capital related activities	71,389

Cash flows from noncapital financing activities:

Cash payments on intergovernmental loans	(24,620)
Net cash used for noncapital financing activities	(24,620)

Cash flows from investing activities:

Interest received	1,099
Net cash provided by investing activities	1,099

Net Increase in Cash and Cash Equivalents 151,912

Cash and cash equivalents at beginning of year	194,276
Cash and cash equivalents at end of year	\$ 346,188

Reconciliation of operating income to net cash provided by operating activities

Operating Income	105,881
Adjustments to reconcile operating income to net cash used for operating activities	
Decrease in Accounts Payable	(2,709)
Increase in Accrued Wages	872
Net cash provided by operating activities	\$ 104,044

See accompanying notes to the basic financial statements

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BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

1. DESCRIPTION OF THE REPORTING ENTITY

The Butler County Port Authority (the "Port Authority") is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Port Authority was established in September 2004 pursuant to section 4582.22 of the Ohio Revised Code by resolution of Butler County. The seven voting member Board of Directors directs the Port Authority.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements of Butler County Port Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the Port Authority's accounting policies are described below. The Port Authority also has the option of following subsequent FASB guidance for its proprietary activities, subject to this same limitation. The Port Authority has elected not to apply those FASB Statements and Interpretations issued after November 30, 1989 to its proprietary activities.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Budgetary Data

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

D. Cash and Cash Equivalents

The Port Authority maintains a cash management program whereby cash is deposited with a banking institution in Butler County. The agreements restrict activity to certain deposits. These deposits are stated at cost which approximates market value. Investment procedures are restricted by the provisions of the Ohio Revised Code. The Port Authority had no investments at the end of the year.

For purposes of the statement of cash flows and for the presentation on the statement of net assets, the funds in the cash management pool are considered to be cash equivalents.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Intergovernmental Receivable

Receivables recorded on the Port Authority's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable systematic method of determining their existence, completeness, valuation and collectibility. The Port Authority had no receivables at December 31, 2009.

F. Organizational Costs

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

G. Operating and Non-Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly at the Port Authority's primary mission. For the Port Authority, operating revenues include intergovernmental contributions to fund operations and local business contributions to work on grant applications, as well as administrative fees charged to cover operating expenses. Operating expenses are necessary costs incurred to support the Port Authority's primary mission, including depreciation.

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

H. Accrued Liabilities

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

The Port Authority received a loan from Butler County Economic Development to aid in the payment for services in connection with CSX Electric Lock Switch in prior years. The loan payable was repaid with user charges through a reimbursement contract with CSX and operating dollars available to cover the remaining amount.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

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

J. Conduit Debt Financing

One of the Port Authority's main functions is to provide Butler County companies and organizations with the ability to issue debt at a tax exempt rate. The company may use the Port Authority's tax exempt status for such offerings by issuing conduit revenue bonds backed by reimbursement agreements with the Port Authority and trustee.

K. 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.

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Port Authority as:

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

Deposits

At fiscal year-end, the carrying value of the Port Authority's deposits was \$346,188 and the bank balance was \$967,227. Of the Port Authority's bank balance, \$250,000 was insured by federal depository insurance. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2009, \$717,227 of the deposits were exposed to custodial credit risk.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

3. DEPOSITS AND INVESTMENTS (continued)

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

Investments

As of December 31, 2009, the Port Authority had no investments.

4. CAPITAL ASSETS

As of December 31, 2009, the Port Authority had no capital assets.

5. RISK MANAGEMENT

The Port Authority is covered by general liability and public official liability insurance with the National Union Fire Insurance Company of Pittsburg, PA. Coverage with a private carrier provides bonding, liability insurance on the \$1,000,000 maximum per claim and in aggregate. There is no general liability coverage as the Port Authority does not maintain a separate place of business or have employees to insure. Settled claims resulting from these risks have not exceeded commercial insurance coverage in the past three years. There were no changes in coverage from the prior year.

6. LOANS PAYABLE

During 2006, the Port Authority received two loans from Butler County Economic Development (BCED) in the amounts of \$20,000 and \$50,000, respectively. Those loans were repaid to BCED through 100% of any funds to which the Port Authority is entitled pursuant to the terms of the agreement with CSX, Inc. with respect to the CSX electric lock switch replacement project described in the Project Note 7. The Port Authority was to repay loans promptly upon receipt of the refunds. The loan obligation will continue until the earlier of five years from the date of the CSX agreement or the date on which the County has received \$70,000 from the Port Authority. During 2009, the Port Authority received \$20,350 of reimbursements from CSX, Inc. and with operating cash, the Port paid the remaining \$24,620 on the loan payable.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

7. CONDUIT DEBT PAYABLE

The Port Authority has issued debt obligations on behalf of the Greater Miami Valley YMCA (the “YMCA”) for the purpose of constructing a new facility in coordination with the Middletown Regional Hospital’s Atrium Facility along Interstate 75 and the refinancing of outstanding debt on other YMCA facilities in Butler County. This bond and the interest thereon do not constitute debt or liability by the Port Authority, Butler County or the State of Ohio, but are special obligations between investors and the debtors payable solely from the payments received by the trustee under the loan agreements and meet the definition of conduit debt in GASB Interpretation No. 2, *Disclosure of Conduit Debt Obligations*. The Port Authority has elected to report both the liability and respective asset (receivable from the YMCA) on the face of the financial statements.

The following revenue bond was collateralized by either both of a pledge of the revenues of the borrowing institution (which is not determinable by the Port Authority or required to be determined under the loan covenant) or by first mortgages on the physical property financed with the proceeds of the debt offerings and by the Port Authority’s assignment of its interest in the mortgage properties to the trustee of the bond issue at December 31, 2009:

Revenue Bond	Maturity Date	Interest Rate	Principal Balance as of 12/31/09
Greater Miami Valley YMCA Project	09/01/2037	Varies	\$17,015,000

8. PROJECTS

Electric Lock/Switch Replacement

The Port Authority applied for and received a reimbursable grant through the Ohio Rail Development Commission. The Port Authority replaced a manual lock located in the City of Fairfield that serves three local businesses. With the electric lock, the rail movement will be expedited from several day delays to possibly same day service. The project was completed in the spring of 2007. The Port Authority and CSX, Inc. have a reimbursement agreement that will pay a user fee up to \$50,000 in rebates for increased traffic as a result of the electric lock switch over the next three years. The first rebate was in February 2008. The final reimbursement should be received by the Port during 2010.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

8. PROJECTS (continued)

Quaker Chemicals Expansion

The Port Authority worked with Quaker Chemicals on issuance of industrial development revenue bonds in 2008. These bonds helped Quaker Chemicals, along with State of Ohio grants and City of Middletown economic development aid, make improvements to the current Middletown facility and by adding about 12,000 square feet of production space.

Middletown Regional Hospital (the "Hospital") Demolition Project

During 2007, the Port Authority was awarded a \$1.8 million grant from the Clean Ohio Revitalization Fund for the demolition and revitalization of the facility located on McKnight Drive in Middletown. The Port Authority and Hospital finalized a construction agency agreement and purchase-sale agreement allowing for the old Hospital facility to be demolished and then sold to a developer that will turn the site into market rate homes. The project had been completed by September 1, 2009 although not transferred to a developer at December 31, 2009. The Port Authority will be filing a no further action letter and documentation for the brownsfield revolving loan fund during 2010.

Intelligrated Acquisition Project

During 2009, the Port Authority entered into discussions with Intelligrated and the State of Ohio Department of Development to aid Intelligrated in the purchase of a facility in West Chester, Ohio. The Port Authority's involvement will involve several debt issues and lease holder of the building Intelligrated will occupy. The project will close during the first quarter of the 2010.

Greenwood Fuels LLC

Greenwood Fuels LLC will operate a manufacturing facility located at the Smart Papers plant in Hamilton, Ohio. The proposed Ohio facility will receive and process non-recyclable paper, paper mill sludge and some urban biomass that would otherwise be disposed of in landfills in the region and will convert these materials into cellulosic fuel pellets. Greenwood Fuels LLC received a \$5,000,000 allocation of Recovery Zone Facility Bonds from the Butler County Port Authority at the December 15, 2009 Board Meeting.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

9. DEFINED BENEFIT PENSION PLAN

Public Employees Retirement System

The Port Authority contributes to the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-8025 or 1-800-222- OPERS (7377).

In 2003, OPERS expanded the retirement options for covered employees. OPERS administers three separate pension plans as described below:

- The Traditional Pension Plan (TP) – a cost-sharing multiple-employer defined benefit pension plan
- The Member-Directed Plan (MD) – 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 member and (vested) employer contributions plus any investment earnings thereon.
- The Combined Plan (CO) – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the Traditional Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations with the employer portion at 14 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The Port Authority's required contributions to OPERS for the year ended December 31, 2009 and 2008 was \$11,329 and \$5,600. 92 percent has been contributed for 2009 with the remainder being reported as a liability within the general fund and 100 percent for 2008.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2009

10. POSTEMPLOYMENT BENEFITS

Public Employees Retirement System (OPERS)

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2009 employer contribution rate was 14 percent of covered payroll; 5.5 percent was the portion that was used to fund health care for 2009.

Benefits are advance-funded using an entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed December 31, 2008 include a rate of return on investments of 6.50 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

As of December 31, 2008 (latest information available), the actuarial value net assets available for future OPEB payments were \$10.7 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.6 billion and \$18.9 billion, respectively. At December 31, 2009, the total number of benefit recipients eligible for OPEB through PERS was 357,884. The Port Authority's actual contributions for 2009 that were used to fund OPEB were \$5,665.



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

Members of the Board
Butler County Port Authority
315 High Street
Hamilton, Ohio 45011

We have audited the financial statements of the business-type activities of Butler County Port Authority, Butler County, (the Authority) as of and for the year ended December 31, 2009, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 30, 2010. 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 Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Government's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

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 more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.

We also noted a certain matter not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated June 30, 2010.

Members of the Board

Butler County Port Authority

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

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Compliance and Other Matters

As part of reasonably assuring whether the 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, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2009-001.

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

We also noted a certain matter not requiring inclusion in this report that we reported to the Authority's management in a separate letter dated June 30, 2010.

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



Balestra, Harr & Scherer, CPAs, Inc.
June 30, 2010

**BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY**

Schedule of Findings and Responses
For the Fiscal Years Ended December 31, 2009

Finding Number 2009-001

Material Noncompliance – Budgetary Requirements

Ohio Revised Code, § 4582.39, states that the board of directors of a port authority created in accordance with Section 4582.22 of the Revised Code shall annually prepare a budget.

Additionally, the Ohio Revised Code states that although a taxing unit that does not levy a tax is not a taxing unit for purposes for Ohio Revised Code, Chapter 5705, a Port Authority is still required on or before the fifteenth day of July each year, to adopt an operating budget for the ensuing fiscal year. The operating budget shall include an estimate of receipts from all sources, a statement of all taxing unit expenses that are anticipated to occur, and the amount required for debt charges during the fiscal year. Additionally, the Port Authority is required to follow these Ohio Revised Code, Sections: 5705.36, 5705.38, 5705.40, 5705.41, 5705.43, 5705.44 and 5705.45. These Sections separately require the Port Authority to, in part: certify beginning balances on or about the first day of each fiscal year; certify revenue available for appropriation; adopt appropriations within available resources; certify the availability of funds prior to incurring obligations; and, limit expenditures to appropriations for each fund. However, documents prepared in accordance with such Sections are not required to be filed with the county auditor or county budget commission.

The Port Authority did not adopt an operating budget for 2008 or 2009, nor did it establish appropriations or estimated receipts. We recommend that the Port Authority prepare the documents required by Ohio Revised Code, § 4582.39 and, when appropriate, that the Board regularly review appropriations and estimated receipts and make modifications as needed.

Client Response:

The Port Authority will pass at December or January meeting the additional items listed beyond the operating budget required.

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Mary Taylor, CPA
Auditor of State

BUTLER COUNTY PORT AUTHORITY

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 23, 2010**