



Dave Yost • Auditor of State

PORT AUTHORITY OF ALLEN COUNTY
ALLEN COUNTY

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Port Authority of Allen County
Allen County
144 South Main Street, Suite 200
Lima, Ohio 45801

To the Board of Directors:

We have audited the accompanying basic financial statements of the Port Authority of Allen County, Allen County, (the PAAC), a component unit of Allen County, as of and for the years ended December 31, 2010 and 2009, 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 of Allen County, Allen County, as of December 31, 2010 and 2009, 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.

As disclosed in Note 11, the PAAC restated the January 1, 2009 net assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2011, 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.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

October 12, 2011

**PORT AUTHORITY OF ALLEN COUNTY
ALLEN COUNTY**

**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
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, 2010 and 2009. 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.

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 2010 compared to fiscal years 2009 and 2008.

Table 1			
Net Assets			
	2010	2009	2008
Assets			
Cash	\$ 201,730	\$ 184,864	\$ 188,581
Loans Receivable	238,175	238,175	238,175
Depreciable Capital Assets	19,200	20,945	22,690
Non-depreciable Capital Assets	4,641,866	1,484,666	1,484,666
Total Assets	5,100,971	1,928,650	1,934,112
Net Assets			
Invested in Capital Assets	4,661,066	1,505,611	1,507,358
Unrestricted	439,905	423,039	426,754
Total Net Assets	\$5,100,971	\$1,928,650	\$1,934,112

Total assets increased by \$3,172,321, or 164% percent from fiscal year 2009 to 2010. Total assets decreased by \$5,462 or less than 1% from fiscal year 2008 to 2009. Cash increased by \$16,866 in 2010 over 2009 and decreased \$3,717 in 2009 over 2008. For 2010, the increase in total assets was largely due to the transfer of additional land in the Shawnee Industrial Park from 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.

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**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
UNAUDITED
(Continued)**

The following is a comparison of 2010 compared with 2009 and 2008.

**Table 2
Change in Net Assets**

	2010	2009	2008
Operating Revenue:			
Railroad Rent	\$ 2,400	\$ 2,400	\$ 2,400
Interest and Fee Income from Loans			3,718
Railroad Crossing Reimbursement	224,009	239,202	
Lease Income	689		
Land Purchase Option Income	13,500		
Bond Conduit Income	6,676		
Total Operating Revenues	<u>247,274</u>	<u>241,602</u>	<u>6,118</u>
Operating Expenses:			
Depreciation	1,745	1,745	1,745
Technical Assistance		2,400	6,570
Tax Assessments		437	
Repairs and Maintenance	6,055		
Bank Fees	72		708
Signage	439		
Railroad Crossing	224,009	239,202	
Dues	100	100	100
Miscellaneous			264
Accounting and Auditing Fees		3,538	
Total Operating Expenses	<u>232,420</u>	<u>247,422</u>	<u>9,387</u>
Non-Operating Revenues (Expenses):			
Grants Disbursed			(100,000)
Bank Interest Income	267	358	5,574
Cash Transfer to Allen County Commissioners			(243,505)
Transfer of receivables to Allen County Commissioners			(979,080)
Land Transfers from Allen County	3,157,200		
Total Non-Operating Revenues (Expenses)	<u>3,157,467</u>	<u>358</u>	<u>(1,317,011)</u>
Increase (Decrease) in Net Assets	3,172,321	(5,462)	(1,320,280)
Net Assets at Beginning of Year	1,928,650	1,934,112	3,254,392
Net Assets at End of Year	<u>\$5,100,971</u>	<u>\$1,928,650</u>	<u>\$1,934,112</u>

The transfer of the land from the Allen County Commissioners represented 99.6% of the increase in net assets for 2010.

Capital Assets

At the end of fiscal years 2010 and 2009, the PAAC had \$4,661,066 and \$1,505,611 respectively invested in land and infrastructure. The PAAC holds various properties for investment for future sale. See Note 5 for further information.

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**MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
UNAUDITED
(Continued)**

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, Suite 200, Lima, Ohio 45801 or e-mail at spraguej@aedg.org.

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**PORT AUTHORITY OF ALLEN COUNTY
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**STATEMENT OF NET ASSETS
DECEMBER 31, 2010 AND 2009**

	2010	2009
Current Assets		
Cash - Unrestricted	\$ 201,730	\$ 184,864
Loans Receivable	238,175	238,175
Total Current Assets	439,905	423,039
Non-Current Assets		
Depreciable Capital Assets – Net	19,200	20,945
Non-Depreciable Capital Assets	4,641,866	1,484,666
Total Non-Current Assets	4,661,066	1,505,611
Total Assets	5,100,971	1,928,650
Net Assets		
Invested in Capital Assets, Net of Related Debt	4,661,066	1,505,611
Unrestricted	439,905	423,039
Total Net Assets	\$5,100,971	\$1,928,650

See accompanying notes to the basic financial statements.

**PORT AUTHORITY OF ALLEN COUNTY
ALLEN COUNTY**

**STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Railroad Rent	\$ 2,400	\$ 2,400
Railroad Crossing Reimbursement	224,009	239,202
Lease Income	689	
Land Purchase Option Income	13,500	
Bond Conduit Income	6,676	
Total Operating Revenue	<u>247,274</u>	<u>241,602</u>
Operating Expenses		
Depreciation	1,745	1,745
Technical Assistance		2,400
Tax Assessments		437
Repairs and Maintenance	6,055	
Accounting and Audit Fees		3,538
Bank Fees	72	
Signage	439	
Dues	100	100
Railroad Crossing	224,009	239,202
Total Operating Expenses	<u>232,420</u>	<u>247,422</u>
Operating Income (Loss)	14,854	(5,820)
Non-Operating Revenues		
Bank Interest Income	<u>267</u>	<u>358</u>
Income (Loss) Before Land Transfer	15,121	(5,462)
Land Transfer from Allen County	<u>3,157,200</u>	
Change in Net Assets	<u>3,172,321</u>	<u>(5,462)</u>
Net Assets – Beginning of Year, Restated (Note 11)	<u>1,928,650</u>	<u>1,934,112</u>
Net Assets – End of Year	<u><u>\$5,100,971</u></u>	<u><u>\$1,928,650</u></u>

See accompanying notes to the basic financial statements.

**PORT AUTHORITY OF ALLEN COUNTY
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**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
Cash Flows from Operating Activities		
Cash Received from Railroad Rent	\$ 2,400	\$ 2,400
Cash Received from Railroad Crossing Reimbursement	224,009	239,202
Cash Received from Leases	689	
Cash Paid for Railroad Crossing	(224,009)	(239,202)
Cash Paid to Suppliers	(6,666)	(6,475)
Cash Received from Land Purchase Option	13,500	
Miscellaneous Cash Received	6,676	
	16,599	(4,075)
Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities Interest Received	267	358
Net Increase (Decrease) in Cash	16,866	(3,717)
Cash at January 1	184,864	188,581
Cash at December 31	\$201,730	\$184,864

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

	2010	2009
Operating Income (Loss)	\$14,854	(\$5,820)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	1,745	1,745
Net Cash Provided (Used) by Operating Activities	\$16,599	(\$4,075)

A non-cash land transfer in the amount of \$3,157,200 was received in 2010.

See accompanying notes to the basic financial statements.

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**PORT AUTHORITY OF ALLEN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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 PAAC 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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

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.

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.

**PORT AUTHORITY OF ALLEN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

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 not-for-profit entities for various 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 certain reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amount of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

3. DEPOSITS AND INVESTMENTS

State statutes 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.

**PORT AUTHORITY OF ALLEN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

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. 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 PAAC, 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.

**PORT AUTHORITY OF ALLEN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

3. DEPOSITS AND INVESTMENTS (Continued)

At December 31, 2010 and 2009, the carrying amount of the PAAC's deposits was \$201,730 and \$184,864, respectively. Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures* at December 31, 2010 and 2009, the PAAC's bank balances of \$201,730 and \$184,864 were fully insured.

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.

4. LOANS RECEIVABLE

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.

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, 2010 are as follows:

Outstanding Loans:	<u>December 31, 2010</u>
Lima Growth Association	\$200,000
Allen County Development Corporation	<u>38,175</u>
Total Loans	<u><u>\$238,175</u></u>

5. CAPITAL ASSETS

The PAAC had \$4,641,866 and \$1,484,666 in non-depreciable capital assets at December 31, 2010 and 2009, respectively. This was composed of various land properties in Allen County. There was one addition to capital assets during 2010, which accounted for the \$3,157,200 increase.

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.

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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

5. CAPITAL ASSETS (Continued)

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 2010 and 2009 was \$47,127 and \$45,382, 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. During 2000 and 2001, 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 \$788,897 and is presented as a restatement (Note 11) to the January 1, 2009 beginning net assets. During January and August 2010, the Allen County Commissioners deeded additional land to the PAAC to be used for economic development. The land was recorded at the fair market value of \$3,157,200, based on comparable land sales in the Shawnee Industrial Park.

6. 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.

7. SUBSEQUENT EVENTS

On February 16, 2011, the Allen County Commissioners deeded .23 acres (located at 222 N. Main St., Lima) to the PAAC. The land and improvements were valued at \$149,200, based on the Market Value recorded by the Allen County Auditor for real estate tax purposes.

8. OPERATING LEASE COMMITMENTS

The PAAC leases a portion of its property for advertising purposes under a cancelable operating lease with a term of one year with automatic annual renewals. The annual lease income is \$400 per year.

9. REAL ESTATE PURCHASE OPTION

In September 2010, the Port Authority entered into a Real Property Purchase Option Agreement with Element Power Solar Development, LLC on 167.66 acres of real property located in the Shawnee Industrial Park. The agreement gives and grants Element Power Solar Development, LLC the sole, exclusive and irrevocable right and option to purchase the property. The option expires September 2, 2014. The remaining option fee schedule is as follows:

December 31, 2011	\$14,000
2012	14,500
2013	15,000
2014	<u>15,500</u>
	<u>\$59,000</u>

**PORT AUTHORITY OF ALLEN COUNTY
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**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(Continued)**

10. CONDUIT DEBT

The PAAC entered into a Funding Agreement on October 1, 2010 to issue and sell Adjustable Rate Economic Development Revenue Refunding Bonds, Series 2010 in the amount of \$21,760,000. The PAAC loaned the \$21,760,000 of Series 2010 bond proceeds to the University of Northwestern Ohio for the purpose of refunding prior bonds. The Huntington National Bank purchased the Series 2010 bonds from the PAAC. All bond payments made by the University of Northwestern Ohio will be paid directly to The Huntington National Bank. The Port Authority received one-time issuance fee income of \$6,676 for its role as bond issuer.

The PAAC is not obligated in any way to pay the debt and related charges on the bonds or any of its funds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

11. RESTATEMENT OF PRIOR YEAR NET ASSETS

Net assets were restated at December 31, 2008 to make a correction to prior year's capital asset calculation for land actually transferred to the PAAC during 2000 and 2001. The changes had the following effect on the net assets as previously reported:

Net Assets, December 31, 2008	\$1,145,215
Restatement for land deeded to the PAAC in 2000 and 2001	788,897
Restated Net Assets, December 31, 2008	<u>\$1,934,112</u>

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Dave Yost • 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, Suite 200
Lima, Ohio 45801

To the Board of Directors:

We have audited the financial statements of the Port Authority of the Allen County, Allen County, (the PAAC); a component unit of Allen County, as of and for the years ended December 31, 2010 and 2009, and have issued our report thereon dated October 12, 2011. As disclosed in Note 11, the PAAC restated the January 1, 2009 net assets. 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 the purpose of expressing our opinion on the financial statements, but not for the purpose of opining 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. Therefore, we cannot assure that we have identified all deficiencies, significant deficiencies or material weaknesses. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and timely corrected. We consider finding 2010-01 described in the accompanying schedule of findings to be a material weakness.

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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We also noted certain matters not requiring inclusion in this report that we reported to the PAAC's management in a separate letter dated October 12, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

October 12, 2011

**PORT AUTHORITY OF ALLEN COUNTY
ALLEN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2010 AND 2009**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2010-01

Material Weakness

Completeness and Accuracy of the Annual Compilation

The Port Authority of Allen County (PAAC) should have procedures and controls in place to help assure that the year-end GAAP compilation is complete and accurate. The following errors and/or omissions were identified in the GAAP compilation.

During 2010, the financial statements reported Land Transfers from Allen County in the amount of \$4,133,700. Included in this transfer was land in the amount of \$976,500 that had actually been transferred to the PAAC in 2000 and 2001, but not previously reported on the financial statements. Since this land was transferred in 2000 and 2001 the current market value was indexed back to 2000 and 2001 using the Consumer Price Index to determine a more realistic value. This resulted in the land value being reduced by \$187,603. The accompanying financial statements have been adjusted to reduce the amount reported as Land Transfers from Allen County and Capital Assets, and to restate net assets at January 1, 2009.

The 2009 financial statements included Bad Debt Expense in the amount of \$238,175 which represented the outstanding receivable balance of two loans. The Board of Directors had not taken formal action to write-off these loans and there was not a policy for the write-off of loans receivable. On August 9, 2011, the Board met to retroactively approve writing off these loans; however, the meeting minutes were contradictory and suggested that the Board still wanted to pursue collection of the loans. As a result the accompanying financial statements have been adjusted to eliminate the Bad Debt Expense and to add the Loans Receivable balance.

The PAAC entered into a debt agreement on October 1, 2010 to issue and sell Adjustable Rate Economic Development Revenue Refunding Bonds, Series 2010 in the amount of \$21,760,000. This conduit debt was not disclosed in the notes to the financial statements. Conduit debt disclosure has been added to the accompanying notes to the financial statements.

The failure to present a complete and accurate compilation impacts the users' understanding of the financial position and results of operations and may result in the material misstatement of the compilation.

Prior to making the annual compilation (management discussion and analysis, financial statements, and note disclosure) available to the public and filing with the Auditor of State, the Board should review the compilation to identify errors and omissions. If the compilation is performed by an outside accounting firm then the Board should have procedures and controls in place to help assure all relevant information and supporting documentation has been provided to the accounting firm.

OFFICIALS' RESPONSE: We did not receive a response from Officials to the finding reported above.

**PORT AUTHORITY OF ALLEN COUNTY
ALLEN COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2010 AND 2009**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No <u>Longer</u> Valid; <i>Explain:</i>
2008-001	Ohio Rev. Code Section 5705.41(D); Prior certification was not obtained for obligations.	Yes	Corrected
2008-002	Accountability for Capital Assets	No	Partially Corrected – Repeated in separate letter to management.



Dave Yost • Auditor of State

PORT AUTHORITY OF ALLEN COUNTY

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
DECEMBER 1, 2011