



**Auditor of State
Betty Montgomery**

LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Board Members
Lorain County Port Authority
Lorain County
216 Third Street
Elyria, Ohio 44035

We have audited the accompanying basic financial statements of the Lorain County Port Authority, Lorain County, Ohio, (the Authority) a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2003, as listed in the table of contents. These financial statements are the responsibility of the Authority'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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 that our audit provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Port Authority, Lorain County, Ohio, a component unit of Lorain County, Ohio, as of December 31, 2003, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 17, 2004, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 17, 2004

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

The following Management's Discussion and Analysis (MD&A) of the Lorain County Port Authority's (the Authority) financial performance provides an introduction to the financial statements for the year ended December 31, 2003. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statements.

FINANCIAL STATEMENTS

The Authority's financial statements are prepared on the accrual basis of accounting. The Authority is structured as a single enterprise fund with revenues recognized when earned, not when received. Expenses are recognized when incurred, not when paid. The following statements are included:

Statement of Net Assets – presents information on all the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

Statement of Revenues, Expenses and Changes in Net Assets – presents information showing how the Authority's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Statement of Cash Flows – presents only the flow of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement.

FINANCIAL POSITION

The following represents the Authority's financial position for the years ended December 31, 2002 and December 31, 2003:

	<u>2003</u>	<u>2002</u> (As restated)
ASSETS:		
Cash and Cash Equivalents	\$32,799	\$ 11,135
Restricted Assets	<u>2,525,284</u>	<u>2,511,548</u>
Total Assets	<u>2,558,083</u>	<u>2,522,683</u>
LIABILITIES:		
Accounts Payable	0	13,865
Intergovernmental Payable	<u>147,550</u>	<u>108,247</u>
Total Liabilities	<u>147,550</u>	<u>122,112</u>
NET ASSETS:		
Restricted – Bond Fund Program Reserves	2,525,284	2,511,548
Unrestricted	<u>(114,751)</u>	<u>(110,977)</u>
Total Net Assets	<u>2,410,533</u>	<u>2,400,571</u>
Total Liabilities and Net Assets	<u>\$2,558,083</u>	<u>\$2,522,683</u>

**LORAIN COUNTY PORT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

2003 was the second year of operations for the Authority. Restricted Assets and Restricted Net Assets represents grant monies from the State of Ohio Department of Development and Lorain County along with designated interest earnings. These funds are held in a trust with National City Bank to cover debt service payments in the event a borrower participating in the Authority's Bond Fund Program is unable to make the required payments.

"Intergovernmental payables" represents the cumulative operating costs incurred by the Authority that have been paid by Lorain County along with interest earnings on the restricted bond program reserves granted by the County. In addition, the County and the Authority shared the expenses that were incurred in order to secure a County Guaranty (a pledge of non-tax revenue dollars to secure the financing) for the Lorain County Visitor's Bureau project. All other legal fees were paid out of the transaction proceeds. It is anticipated that the Authority will repay the County for the cumulative costs as its operations improve.

The following represents the Authority's summary of changes in net assets:

	<u>2003</u>	<u>2002</u>
Operating Revenues	\$35,318	\$1,500
Operating Expenses	(25,419)	(77,630)
Operating Income (Loss)	<u>9,899</u>	<u>(76,130)</u>
Non-Operating Revenues (Expenses)	63	1,021,701
Increase in Net Assets	<u>9,962</u>	<u>945,571</u>
Net Assets, Beginning of Year, As restated	2,400,571	1,455,000
Net Assets, End of Year	<u><u>\$2,410,533</u></u>	<u><u>\$2,400,571</u></u>

A comparative analysis of the Authority's financial position and change in net assets is as follows:

- Operating Revenues increased as a result of the completion of two transactions and the collection of the related closing fees as well as the collection of ongoing fees for the Lorain County Visitor's Bureau project. The balance of the revenues came from application fees which were comparable to last year's figures.
- Operating Expenses and Operating Loss (paid by the Authority) decreased significantly because the Authority did not incur the start up costs in 2003 that accounted for the majority of the costs in 2002.
- Net Assets, End of Year increased slightly due to the increased operating revenues and the decreased operating expenses.

On March 14, 2003, an important adjustment was made to Section 5.04 (m) of the Master Trust Indenture. The following phrase was added: "After December 15 but prior to December 31 of each year, the Trustee shall pay to Lorain County 100 percent of the investment earnings on the County Grant Account of the Program Reserve Fund for the prior year ending on December 15." This resulted in the loss of a portion of the Authority's total interest earnings which amounted to \$11,584 for 2003.

**LORAIN COUNTY PORT AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

On March 20, 2003, the Authority issued bonds on behalf of the Lorain County Visitor's Bureau in the amount of \$1,245,000 for the purposes of constructing a new Visitor's Center and Bureau Office. At the close of this transaction, the Authority received a \$15,000 fee. Over the twenty-year life of the bonds, the Authority will also receive a varied monthly fee ranging from approximately \$6,000 per year in the first year to approximately \$400 in the last year.

Lastly, in April 2003 the Authority participated in a transaction with the Midview Local School District which will allow for the construction of three new elementary school buildings. The Port Authority created a special trust under Ohio law called the LCPA Building Trust for the purpose of facilitating the School District's construction of the project. The Authority received fees at closing totaling \$15,251.25.

In addition, the Authority continues to receive applications and associated application fees from various companies. These applications are generating future activity for the growth of the Authority.

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**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**Statement of Net Assets
As of December 31, 2003**

Assets

Current Assets:

Cash and Cash Equivalents \$32,799

Noncurrent Assets:

Restricted Bond Fund Program Reserves 2,525,284

Total Assets 2,558,083

Liabilities

Current Liabilities

Intergovernmental Payable 147,550

Total Liabilities 147,550

Net Assets

Restricted - Bond Fund Program Reserves 2,525,284

Unrestricted (114,751)

Total Net Assets \$2,410,533

See accompanying notes to the basic financial statements.

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended December 31, 2003**

Operating Revenue

Administrative Fee	\$30,261
Application Fees	2,000
CVB - Other Monthly Fees	<u>3,057</u>

Total Operating Revenue 35,318

Operating Expenses

Professional Services	19,093
Insurance	125
Supplies	438
Trustee Fees	2,400
Other	<u>3,363</u>

Total Expenses 25,419

Operating Income 9,899

Non-Operating Revenues (Expenses)

Interest Income	19,366
Interest Payment to State/County	<u>(19,303)</u>

Total Non-Operating Revenues (Expenses) 63

Change in Net Assets 9,962

Total Net Assets, Beginning of Year (Restated - See Note 2) 2,400,571

Total Net Assets, End of Year \$2,410,533

See accompanying notes to the basic financial statements.

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**Statement of Cash Flows
For the Year Ended December 31, 2003**

Cash Flow From Operating Activity

Cash Received from Customers	\$35,318
Cash Payments to Suppliers for Goods and Services	<u>(19,284)</u>
Net Cash Provided by Operating Activities	<u>16,034</u>

Cash Flow From Investing Activities

Interest Received	<u>19,366</u>
Net Cash Provided by Investing Activities	<u>19,366</u>
Net Increase in Cash and Cash Equivalents	35,400

Cash and Cash Equivalents, Beginning of Year (Includes Restricted Bond Fund Program Reserves)	<u>2,522,683</u>
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Cash and Cash Equivalents, End of Year (Includes Restricted Bond Fund Program Reserves)	<u><u>\$2,558,083</u></u>
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**Reconciliation of Operating Income to Net Cash
Provided by Operating Activities**

Operating Income	\$9,899
Adjustments to Reconcile Income From Operations to <u>Net Cash Provided by Operating Activities</u>	
Decrease in Accounts Payable	(13,865)
Increase in Intergovernmental Payable	<u>20,000</u>
Net Cash Provided by Operating Activities	<u><u>\$16,034</u></u>

See accompanying notes to the basic financial statements.

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**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lorain County Port Authority, Lorain County, Ohio, (the Authority) was created by the Lorain County Board of Commissioners (the County) in 2001 to enhance economic development in Lorain County. The Authority is created in accordance with Section 4582.22 of the Ohio Revised Code.

The Authority is governed by a five-member Board of Directors (the Board) appointed by the Lorain County Board of Commissioners. The initial Board is serving staggered terms. Each successor shall serve for a term of four years, except when a person is appointed to fill a vacancy, which is to be appointed to serve only the unexpired term. Members of the Board are eligible for re-appointment. The Board controls the employment of the Executive Director who is responsible for day-to-day operations.

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

As of December 31, 2003, the Authority has a liability to the County in the amount of \$128,247 for past operating advances. Under GASB Statement No. 14, this is considered to be a financial burden on the County; also the County can impose its will on the Authority through the appointment of the members of the Board of Directors. Therefore, the Authority is a component unit of the County whose financial statements are discretely presented in the County's financial statements.

B. Basis of Accounting/Measurement Focus

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. All transactions are accounted for in a single enterprise fund. The Authority applies all GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB pronouncements.

Operating revenues and expenses generally result from providing services in connection with principal ongoing operations of the Authority. Operating revenues consist of application fees and administrative fees. Operating expenses include professional services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Authority are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process

Ohio Revised Code Section 4582.39 requires the Authority to prepare a budget annually. This budget includes estimated receipts and appropriations and is prepared on the cash basis of accounting.

D. Cash, Cash Equivalents and Investments

The Ohio Revised Code prescribes allowable deposits and investments. For purposes of the Statement of Cash Flows, the Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are reported at fair value, which is based on quoted market prices.

E. 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 expected.

2. RESTATEMENT OF PRIOR YEAR NET ASSETS

Net Assets has been restated by \$45,000 from \$2,445,571 to \$2,400,571 resulting from start-up costs incurred by Lorain County in 2001 that were not previously identified. The \$45,000 is included in the liability account Intergovernmental Payable.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The provisions of the Ohio Revised Code govern the investments and deposits of Authority monies. In accordance with these statutes, only financial institutions located in Ohio are eligible to hold public deposits. The statutes also permit the Authority to invest its monies in certificate of deposit, savings accounts, money market accounts, the State Treasurer's Asset Reserve (STAR Ohio) investment pool and obligations of the United States government or certain agencies thereof. The Authority may also enter into repurchase agreements with any eligible depository for a period not exceeding thirty days.

Public depositories must give security for all public funds on deposit. These institutions may specifically collateralize individual accounts in lieu of amounts insured by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Deposits - At December 31, 2003, the carrying amount and the bank balance of the Authority's deposits was \$32,799. Federal depository insurance covered the entire bank balance.

Investments – The Bond Fund Program Reserves are invested in an open-end money market fund, which are not evidenced by securities and are not subject to custodial credit risk. The money market fund has a carrying value and fair value of \$2,525,284 at December 31, 2003.

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

4. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; injury and natural disasters. Through Lorain County, the Authority is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio non-profit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management programs. The Authority has not had any claims that exceeded insurance coverage.

A surety bond of \$25,000 through Ohio Casualty Insurance Group covers the Board Secretary.

5. BOND FUND PROGRAM

The Authority has established a Bond Fund Program to provide long-term, fixed interest rate financing for qualified industrial, commercial and public projects. The primary purpose of the Bond Fund Program is to further economic development efforts and investment in Lorain County through the retention and creation of quality, private sector jobs.

The State of Ohio Department of Development (ODOD) awarded the Authority a grant of \$1,000,000, received in April, 2002, which was deposited into the Bond Fund Program Reserve account. The conditional grant from ODOD is for 20 years, with the interest earned on the fund remitted back to ODOD through December, 2012. Beginning 2013 and continuing through December, 2023, 50 percent of the interest earned is required to be remitted back to ODOD. In December 31, 2001, the Authority received a \$1,500,000 grant from Lorain County for the Bond Fund Program, which was also deposited into the Bond Fund Program Reserve account.

Under the Program, debt service requirements on each bond issue are to be secured by a pledge of amounts to be received under lease or loan agreements with borrowers who utilize the financial facilities. In addition, all borrowers are required to provide a letter of credit as additional security for the related bonds. Amounts in the Bond Fund Program Reserve may be used for debt service in the event the borrower is unable to make the required payments under the lease.

The Authority did not have any Bond issues under the Bond Fund Program as of December 31, 2003. Amounts held in the Authority's Bond Fund Program Reserve were \$2,525,284 at December 31, 2003, and are reflected in Restricted Assets in the accompanying Statement of Net Assets.

6. RELATED PARTY ACTIVITY

The Authority utilizes certain Lorain County employees without reimbursement and the Director of the Authority is also a member of the Board of Directors of the Authority.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Board Members
Lorain County Port Authority
Lorain County
216 Third Street
Elyria, Ohio 44035

We have audited the financial statements of the Lorain County Port Authority, Lorain County, Ohio, (the Authority), a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2003 and have issued our report thereon dated May 17, 2004. 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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on 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 such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Authority in a separate letter dated May 17, 2004.

Lorain County Port Authority
Lorain County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
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This report is intended for the information and use of the audit committee, management and Board Members, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

May 17, 2004



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

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800-282-0370

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LORAIN COUNTY PORT AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JUNE 10, 2004**