



**Auditor of State
Betty Montgomery**

TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Tuscarawas County Port Authority
Tuscarawas County
1112 4th Street
New Philadelphia, Ohio 44663

To the Board of Directors:

We have audited the accompanying basic financial statements of the Tuscarawas County Port Authority, Tuscarawas County, Ohio, (the Port Authority) a component unit of Tuscarawas County, as of and for the year ended December 31, 2002, as listed in the Table of Contents. These financial statements are the responsibility of the Port 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 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 Tuscarawas County Port Authority, Tuscarawas County, Ohio, as of December 31, 2002, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2002, the Port Authority implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial statements - and Management's Discussion and Analysis - for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2003 on our consideration of the Port 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 19, 2003

Tuscarawas County Port Authority
 Management's Discussion and Analysis
 For the Year Ended December 31, 2002
(Unaudited)

The discussion and analysis of the Tuscarawas County Port Authority's (Port Authority) financial performance provides an overall review of the Port Authority's financial activities for the year ended December 31, 2002. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers are encouraged to consider information presented here as well as the basic financial statements to enhance their understanding of the Port Authority's financial performance.

Using this Financial Report

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in fund net assets and a statement of cash flows. Since the Port Authority only uses one fund for its operations, the entity wide and the fund presentation information is the same.

Statement of Net Assets and Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Net Assets answers the question, "How did we do financially during 2002?" 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 takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

This statement reports the Port Authority's net assets, however, in evaluating the overall position of the Port Authority's non-financial information such as changes in the condition of the Port Authority's capital assets will also need to be evaluated.

Since this is the first year the Port Authority has financial activity to report, a comparison to the prior year is not possible. In future years, this section will contain a condensed comparison of assets, liabilities, net assets, revenues and expenses and explanations for significant differences.

Table 1 provides a summary of the Port Authority's net assets for 2002.

Table 1
 Net Assets

Assets	
Current and Other Assets	\$27,760
Non-depreciable Capital Assets	<u>209,277</u>
Total Assets	<u>237,037</u>
Liabilities	
Current Liabilities	<u>164,763</u>
Total Liabilities	<u>164,763</u>
Net Assets	
Invested in Capital Assets, net of related debt	51,555
Unrestricted	<u>20,719</u>
Total Net Assets	<u><u>\$72,274</u></u>

Tuscarawas County Port Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2002
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2002.

Table 2
Revenues and Expenses

	2002
Operating Revenues:	
Grants	\$150,000
Other	3,800
Non-Operating Revenues:	
Interest	732
Total Revenues	154,532
Operating Expenses:	
Salaries and Benefits	54,897
Contractual Services	4,754
Materials and Supplies	1,287
Travel	993
Utilities	3,537
Other	16,157
Total Operating Expenses:	81,625
Non-Operating Expenses:	
Interest and Fiscal Charges	633
Increase in Net Assets	\$72,274

Capital Assets

The ending balance of capital assets represents a \$100,000 deposit on the AK Steel Building which was purchased in January 2003 as well as \$109,277 in payments made to contractors for work performed on the AK Steel Building.

	2002
Construction in Progress	\$209,277
Totals	\$209,277

For more information on the Port Authority's capital assets, see Note 4 to the basic financial statements.

Current Issues

Acquisition of AK Steel Property

Tuscarawas County Port Authority purchased the AK Steel property for \$1,400,000 on January 7, 2003. The property consists of about 700,000 square feet of buildings on 44 acres located along the Tuscarawas River in Dover, Ohio.

Tuscarawas County Port Authority
Management's Discussion and Analysis
For the Year Ended December 31, 2002
(Unaudited)

Current Issues (Continued)

Loan from Tuscarawas County

In January 2003, the Tuscarawas County Commissioners approved a \$1,500,000 loan to enable the Port Authority to acquire the AK Steel property. Terms of the loan will include a 3% interest rate for the first year and a 5% rate if it is renewed the following year.

Lease of AK Steel Building

In February 2003, the Port Authority entered into a lease agreement with Owens Corning to lease 252,900 square feet at a monthly base rent of \$44,690. The lease is for a period of 5 years and has renewable options available.

Contacting the Tuscarawas County Port Authority's Financial Management

This financial report is intended to provide our citizens, investors and creditors with a general overview of the Port Authority's finances and to demonstrate the Port Authority's accountability for the revenue it receives. If you have questions about this report or need additional financial information, contact the Executive Director, at the Tuscarawas County Port Authority, 1112 Fourth Street, New Philadelphia, Ohio 44663.

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**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	<u>ENTERPRISE</u>
Assets:	
<i>Current Assets:</i>	
Cash	\$27,760
<i>Noncurrent Assets:</i>	
Nondepreciable Capital Assets	<u>209,277</u>
 <i>Total Assets</i>	 <u><u>237,037</u></u>
Liabilities:	
<i>Current Liabilities:</i>	
Accounts Payable	59,218
Intergovernmental Payable	4,912
Accrued Interest Payable	633
Short Term Notes Payable	<u>100,000</u>
 <i>Total Current Liabilities</i>	 <u><u>164,763</u></u>
Net Assets:	
Invested in Capital Assets, net of related debt	51,555
Unrestricted	<u>20,719</u>
 <i>Total Net Assets</i>	 <u><u>\$72,274</u></u>

The notes to the financial statement are an integral part of this statement.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

OPERATING REVENUES:	<u>ENTERPRISE</u>
Grants	\$150,000
Other	3,800
Total Operating Revenues	<u>153,800</u>
OPERATING EXPENSES:	
Salaries and Benefits	54,897
Contractual Services	4,754
Materials & Supplies	1,287
Travel	993
Utilities	3,537
Other	16,157
Total Operating Expenses	<u>81,625</u>
Operating Income	72,175
NON-OPERATING REVENUES (EXPENSES):	
Interest Income	732
Interest Expense	<u>(633)</u>
Total Non-Operating Revenues (Expenses)	<u>99</u>
Change in Fund Net Assets	72,274
Net Assets Beginning of Year	<u>0</u>
Net Assets End of Year	<u><u>\$72,274</u></u>

The notes to the financial statement are an integral part of this statement.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	ENTERPRISE
Increase (Decrease) in Cash and Cash Equivalents	
<i>Cash Flows Provided by Operating Activities:</i>	
Cash Received from Tuscarawas County	\$150,000
Cash Received from Other Operating Sources	3,800
Cash Payments to Employees for Services and Benefits	(49,985)
Cash Payments for Contractual Services	(4,723)
Cash Payments to Suppliers for Materials and Supplies	(1,160)
Cash Payments for Other Operating Expenses	(19,349)
	<u>78,583</u>
<i>Net Cash Provided by Operating Activities</i>	<u>78,583</u>
 <i>Cash Flows from Capital and Related Financing Activities</i>	
Proceeds from Note	100,000
Purchase of Capital Assets	(151,555)
	<u>(51,555)</u>
<i>Cash Flows Used for Capital and Related Financing Activities</i>	<u>(51,555)</u>
 <i>Cash Flows from Investing Activities</i>	
Interest on Investments	732
	<u>732</u>
<i>Cash Flows Provided by Investing Activities</i>	<u>732</u>
Net Increase in Cash	27,760
<i>Cash Beginning of Year</i>	<u>0</u>
<i>Cash End of Year</i>	<u>\$27,760</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$72,175
 <i>Adjustments to Reconcile Operating Income to Net Cash Adjustments:</i>	
<i>Increase in Liabilities:</i>	
Accounts Payable	1,496
Intergovernmental Payable	4,912
	<u>6,408</u>
<i>Total Adjustments</i>	<u>6,408</u>
Net Cash Provided by Operating Activities	<u>\$78,583</u>
 Noncash Investing, Capital and Financing Activities	
Purchase of construction in progress by the assumption of accounts payable	\$57,722

The notes to the financial statement are an integral part of this statement.

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**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of the Tuscarawas County Port Authority (the Port Authority) is presented to assist in understanding the entity's financial statements. The financial statements and notes are representations of the entity's management and board who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles for governmental agencies including those principles prescribed by the Governmental Accounting Standard Board (GASB), The American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by The Financial Accounting Standards Board (FASB) (when applicable). The above policies have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The Tuscarawas County Port Authority, Tuscarawas County, 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 pursuant to the authority of section 4582.02 of the Ohio Revised Code. The Port Authority is governed by a five-member Board of Directors. Members of the Board are appointed by the Tuscarawas County Commissioners. The purpose of the Port Authority is to be involved in activities that enhance, foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within Tuscarawas County

The Port Authority is a component unit of Tuscarawas County since the members of the Port Authority's Board are appointed by the Tuscarawas County Board of Commissioners and the Port Authority is economically dependent on the County for financial support. Tuscarawas County Commissioners have no authority regarding the day-to-day activities and business affairs of the Port Authority beyond the creation of the Port Authority and the appointment of its Board of Directors. Tuscarawas County maintains its own accounting functions, is a separate reporting entity, and its financial activity is not included within the financial statements of the Port Authority.

The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable. The Port Authority was formed on January 17, 2001.

B. Basis of Accounting

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

The Port Authority's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Port Authority uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Accounting (Continued)

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

C. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Port Authority are included on the statement of net assets. The statement of revenues, expenses, and changes in fund 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 Port Authority finances and meets the cash flow needs of its enterprise activity.

D. Fund Accounting

The Port Authority maintains an Enterprise Fund, a proprietary fund type, which is the general operating fund and is used to account for all financial resources of the Port Authority. This fund is used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

E. Budgetary Process

Ohio Rev. Code Section 4582.13, requires that each fund be budgeted annually. This budget includes estimated receipts and appropriations.

1. Appropriations

The Board annually approves appropriations and subsequent amendments. Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level of control. Unencumbered appropriations lapse at year end.

2. Estimated Resources

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

3. Encumbrances

The Port Authority reserves (encumbers) appropriations when commitments are made. Encumbrances outstanding at year-end are carried over and are not reappropriated.

Contrary to Ohio Rev. Code 5705.41(D), the Port Authority had expenditures which were not certified by the Executive Director as to the availability of funds, prior to incurring the obligation.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Capital Assets

Capital Assets utilized by the Port Authority are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are reported at their fair market values as of the date received. The Port Authority maintains a capitalization threshold of five hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. The Port Authority does not possess any infrastructure.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Port Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Port Authority did not have any restricted net assets for 2002.

H. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Port Authority, these revenues are operating grants, rental income and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Port Authority.

I. Estimates

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

2. IMPLEMENTATION OF ACCOUNTING PRINCIPLES

For 2002, the Port Authority has implemented GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments", GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" and Statement No. 38, "Certain Financial Statement Disclosures."

GASB Statements No. 33 and 36 establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources.

GASB 34 creates new basic financial statements for reporting the Port Authority's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. CASH

Statutes require the classification of funds held by the Port Authority into three categories:

Category 1 consists of “active” funds – those funds required to be kept in “cash” or “near cash” status for immediate use by the Port Authority. Such funds must be maintained either as cash in the Port Authority’s treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdraw (NOW) accounts.

Category 2 consist of “inactive” funds – those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of “interim” funds – those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or other obligations or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
- 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;
- 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 not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Port Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, country, municipal corporation or other authority.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. CASH (Continued)

Deposits:

At year end the carrying amount of the Port Authority's deposits were \$ 27,760 and the bank balance was \$27,760, all of which was covered by Federal Depository Insurance.

4. Capital Assets

Capital Asset activity for the fiscal year ended December 31, 2002 was as follows:

	Balance 1/1/2002	Additions	Deletions	Balance 12/31/2002
<i>Capital Assets, not being depreciated:</i>				
Construction in Progress	\$0	\$209,277	\$0	\$209,277
Capital Assets, net	\$0	\$209,277	\$0	\$209,277

5. DEFINED BENEFIT PENSION PLANS

Pension Benefit Obligation

The Port Authority's full-time employee, participates in the Ohio Public Employees Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Ohio 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 which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations. For plan members, the Port Authority was required to contribute 8.55 percent of covered salary for 2002. 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, 2002 was \$3,700; 78 percent has been contributed for 2002. The unpaid contribution for 2002 is recorded as a liability as intergovernmental payable.

Post Employment Benefits

The Ohio Public Employees Retirement System (OPERS) provides post-retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and primary survivor recipients of such retirees. Health care coverage for disability recipients is also 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 employer contribution rate for 2002 was 13.55 percent of covered payroll; 5.00 percent was the portion that was used to fund health care. The Port Authority's required contributions to OPERS for the year ended December 31, 2002 was \$2,163.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

5. DEFINED BENEFIT PENSION PLANS (Continued)

Post Employment Benefits (Continued)

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.00 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 0.50 percent and 6.30 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 purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

6. RISK MANAGEMENT

The Port Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries; and natural disasters.

The Port Authority has obtained commercial insurance for the following risks:

- Comprehensive Property and general liability
- Errors and omissions
- General liability and casualty

Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past two fiscal years. There has not been a significant reduction in coverage from the prior year.

The Port Authority also provides health insurance and vision coverage to full-time employees through the Tuscarawas County Employees Self-Insurance Plan.

7. NOTE PAYABLE – TUSCARAWAS COUNTY

In December 2002, the Port Authority borrowed \$100,000 from Tuscarawas County to make the deposit for the acquisition of the AK Steel property. The short term note bears an interest rate of 3% and is payable in one payment during October 2003.

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

8. SUBSEQUENT EVENTS

A. Acquisition of AK Steel Property

Tuscarawas County Port Authority purchased the AK Steel property for \$1,400,000 on January 7, 2003. The property consists of about 700,000 square feet of buildings on 44 acres located along the Tuscarawas River in Dover, Ohio.

B. Loan from Tuscarawas County

In January 2003, the Tuscarawas County Commissioners approved a \$1,500,000 loan to enable the Port Authority to acquire the AK Steel property. Terms of the loan will include a 3% interest rate for the first year and a 5% rate if it is renewed the following year.

C. Loan from Tuscarawas County Bank Consortium

In March 2003, the following banks agreed to loan the Port Authority a total of \$3,000,000:

Belmont National Bank
Citizens Bank
First Federal Community Bank
First National Bank of Dennison
Huntington National Bank
Indian Village Community Bank
National City Bank

The proceeds will be used to pay \$850,000 on the loan from Tuscarawas County and provide funds to renovate the AK Steel Building.

The loan will bear interest at prime + 0% floating with a 5% floor rate and will be amortized over a 180-month period after a 6-month period of interest only. The interest rate and payment is reset annually. The loan also requires covenants for minimum debt service coverage, minimum cash position, and minimum net worth. There is no prepayment penalty on the loan.

In addition to the first mortgage on the AK Steel property, the Tuscarawas County Commissioners will guaranty \$1,500,000 or 50% of the outstanding balance on the bank promissory note, which will decline as the note is paid down.

D. Lease of AK Steel Building

In February 2003, the Port Authority entered into a lease agreement with Owens Corning to lease 252,900 square feet at a monthly base rent of \$44,690. The lease is for a period of 5 years and has renewable options available.

9. CONCENTRATION OF CREDIT RISK

The Port Authority maintains its activities within the Tuscarawas County, Ohio geographical area. The performance of its operational activities will be dependent on the performance of its tenants. The results of these companies and the operations of the Port Authority projects may be dependent on the economical conditions of the local trade area.

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**Auditor of State
Betty Montgomery**

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

Tuscarawas County Port Authority
Tuscarawas County
1112 4th Street
New Philadelphia, Ohio 44663

To the Board of Directors:

We have audited the basic financial statements of the Tuscarawas County Port Authority, Tuscarawas County, Ohio, (the Port Authority) a component unit of Tuscarawas County, as of and for the year ended December 31, 2002, and have issued our report thereon dated May 19, 2003, wherein we noted the Port Authority adopted Governmental Accounting Standards Board 34. 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 Port 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying Schedule of Findings as item 2002-001.

We also noted certain immaterial instances of noncompliance that we have reported to management of the Port Authority in a separate letter dated May 19, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port 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. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Port Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 2002-002.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 2002-002 to be a material weakness.

We also noted other matters involving the internal control over the financial reporting that do not require inclusion in this report, that we have reported to management of the Port Authority in a separate letter dated May 19, 2003.

This report is intended for the information and use of management and the Board of Directors, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

May 19, 2003

**TUSCARAWAS COUNTY PORT AUTHORITY
TUSCARAWAS COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) states in part, that no subdivision or taxing unit shall make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two "exceptions" to the above requirements:

- A. Then and Now Certificate - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that both at the time that the contract or order was made and at the time he is completing his certification a sufficient sum was appropriated and free of any previous encumbrances, the Board may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate, if such expenditure is otherwise valid.
- B. If the amount involved is less than \$1,000, (which was increased to \$3,000 as of April 7, 2003), the fiscal officer may authorize it to be paid without the affirmation of the Board upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful.

None of the expenditures tested were certified by the Executive Director (the Port Authority's fiscal officer) prior to incurring the commitment and the two exceptions noted above were not utilized. The Port Authority should inform all Port Authority employees of the requirements of Ohio Rev. Code Section 5705.41(D) and the importance of certifying the availability of funds. The Port Authority should implement the use of so called Then and Now Certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41.

FINDING NUMBER 2002-002

Material Weakness

Board Monitoring Controls

The following issues were noted during the testing of the Port Authority's financial statements:

- The Assistant Secretary/Treasurer performs a monthly reconciliation of the bank and book balances. However, there was no evidence to substantiate the review of this reconciliation by either the Board or one of its officers. The lack of monitoring of the bank to book reconciliation presents an internal control issue relative to accountability of account balances, as well as an increased risk of errors occurring without timely detection.
- Monthly financial reports including a Receipts Ledger, an Appropriation Ledger, a Fund Cash Position Report and a Listing of Monthly Expenditures are produced by the Port Authority's accounting system but are not presented to the Board for its review and approval.

FINDING NUMBER 2002-002
(Continued)

- In June 2002, the Port Authority adopted a budget for its activities for fiscal year 2002. However, there was no evidence to substantiate that the Board of Directors monitored the actual receipts and expenditures against the budget.
- The Port Authority did not issue a salary notice or employment contract to document the current monthly pay rate or approved annual salary of the Assistant Secretary/Treasurer. This does not provide for adequate accountability relative to payroll expenditures.

To improve internal controls, the Board should expand its fiscal monitoring procedures to include the following:

- The monthly bank to book reconciliation should be monitored by the Board or one of its officers and be evidenced by the signature of the person monitoring the procedure. The reconciliation should also be formally accepted by the Board in the minutes.
- The Executive Director should provide the Board with the various financial reports of the Port Authority including a Receipts Ledger, an Appropriation Ledger, a Fund Cash Position Report, and a Listing of Monthly expenditures. The Board should document receipt and review of these reports within the minutes. This will help ensure that the proper monitoring of the Port Authority's financial activity is taking place.
- The Port Authority's budget should be formally adopted. Budget versus actual information should be provided to the Board of Directors on a continuing basis to keep them apprised of the Port Authority's financial situation.
- The Board should issue an monthly pay notice for its monthly employee and an employment contract for its salaried employee documenting the employee's approved rate of pay. The salary notice or employee contract should be signed by the Board and documented as approved within the minutes. A copy of the approved notice/contract should be provided to the employee and another copy maintained in the employee's personnel file.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

TUSCARAWAS COUNTY PORT AUTHORITY

TUSCARAWAS COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JULY 22, 2003**