



**Auditor of State
Betty Montgomery**

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Zanesville Muskingum County Port Authority
Muskingum County
205 North Fifth Street
Zanesville, Ohio 43701

To Members of the Board:

We have audited the accompanying financial statements of the Zanesville Muskingum County Port Authority, Muskingum County, Ohio (the Port Authority), as of and for the years ended December 31, 2002 and 2001. 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.

As discussed in Note 1, the Port Authority prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As more fully described in Note 2, the Port Authority previously prepared its financial statements in accordance with generally accepted accounting principles.

The basis of accounting prescribed by the Auditor of State requires the Port Authority to report outstanding encumbrances at year-end as budgetary expenditures in Note 4 to the financial statements. The Port Authority did not record encumbrances. It was not practical for us to determine the amount of unrecorded encumbrances at year-end.

In our opinion, except for such adjustments, if any, that would have been necessary to reflect year-end outstanding encumbrances as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances of the Zanesville Muskingum County Port Authority, Muskingum County, as of December 31, 2002 and 2001, and its combined cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 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.

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Zanesville Muskingum County Port Authority
Muskingum County
Independent Accountants' Report
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This report is intended solely for the information and use of management, the Board, and other officials authorized to receive this report under § 117.26, Ohio Revised Code, 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

October 30, 2003

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Intergovernmental Receipts	\$220,000	\$43,962	\$461,616	\$1,691,562	\$2,417,140
Rental Income			242,030		242,030
Earnings on Investments	2,991		5,474		8,465
Miscellaneous	8,075			650	8,725
Total Cash Receipts	231,066	43,962	709,120	1,692,212	2,676,360
Cash Disbursements:					
Salaries and Benefits	261,898	34,987			296,885
Professional Services	93,323	35		13,428	106,786
Repairs and Maintenance	22,063				22,063
Supplies and Materials	4,280	7,148			11,428
Marketing and Advertising	4,590	66,955			71,545
Travel and Recruitment	9,767				9,767
Utilities	8,385	4,099			12,484
Rent	11,674	8,640			20,314
Miscellaneous	44,742	230			44,972
Capital Outlay	7,309			1,167,537	1,174,846
Debt Service:					
Principal Payments			547,444		547,444
Interest Payments			164,735		164,735
Total Cash Disbursements	468,031	122,094	712,179	1,180,965	2,483,269
Total Cash Receipts Over/(Under) Cash Disbursements	(236,965)	(78,132)	(3,059)	511,247	193,091
Other Financing Receipts and (Disbursements):					
Reimbursements	2,371				2,371
Sale of Capital Assets	147,972				147,972
Private Contributions		5,500			5,500
Repayment of Local Monies				(7,216)	(7,216)
Total Other Financing Receipts/(Disbursements)	150,343	5,500	0	(7,216)	148,627
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(86,622)	(72,632)	(3,059)	504,031	341,718
Fund Cash Balances, January 1	266,071	1,023	371,727	(164,600)	474,221
Fund Cash Balances, December 31	\$179,449	(\$71,609)	\$368,668	\$339,431	\$815,939

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

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$3,632,480</u>
Total Non-Operating Cash Receipts	<u>3,632,480</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>3,622,763</u>
Total Non-Operating Cash Disbursements	<u>3,622,763</u>
Net Receipts Over/(Under) Disbursements	9,717
Fund Cash Balances, January 1	<u>780,550</u>
Fund Cash Balances, December 31	<u>\$790,267</u>

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

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2001

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts:					
Intergovernmental Receipts	\$240,000	\$126,318	\$692,425	\$496,854	\$1,555,597
Rental Income			252,790		252,790
Earnings on Investments	12,133		15,660		27,793
Miscellaneous	12,590	52			12,642
Total Cash Receipts	264,723	126,370	960,875	496,854	1,848,822
Cash Disbursements:					
Salaries and Benefits	247,202	97,751			344,953
Professional Services	101,597	12,810		76,870	191,277
Repairs and Maintenance	23,142				23,142
Supplies and Materials	4,561	7,165			11,726
Marketing and Advertising	22,620	1,134			23,754
Travel and Recruitment	8,793	1,335			10,128
Utilities	7,708	2,687			10,395
Rent	12,003	8,640			20,643
Miscellaneous	17,620	100			17,720
Capital Outlay	340,898			910,277	1,251,175
Debt Service:					
Principal Payments			523,194		523,194
Interest Payments			201,797		201,797
Total Cash Disbursements	786,144	131,622	724,991	987,147	2,629,904
Total Receipts Over/(Under) Disbursements	(521,421)	(5,252)	235,884	(490,293)	(781,082)
Other Financing Receipts and (Disbursements):					
Reimbursements	24,591			29,992	54,583
OWDA Note Proceeds				349,574	349,574
Sale of Capital Assets	96,580				96,580
Private Contributions				100,000	100,000
Repayment of Grant Monies		(29,147)			(29,147)
Total Other Financing Receipts/(Disbursements)	121,171	(29,147)	0	479,566	571,590
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(400,250)	(34,399)	235,884	(10,727)	(209,492)
Restated Fund Cash Balances, January 1 (Note 2)	666,321	35,422	135,843	(153,873)	683,713
Fund Cash Balances, December 31	\$266,071	\$1,023	\$371,727	(\$164,600)	\$474,221

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

ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - FIDUCIARY FUND TYPE
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Fiduciary Fund Type</u>
	<u>Agency</u>
Non-Operating Cash Receipts:	
Other Non-Operating Receipts	<u>\$5,128,388</u>
Total Non-Operating Cash Receipts	<u>5,128,388</u>
Non-Operating Cash Disbursements:	
Other Non-Operating Cash Disbursements	<u>4,725,080</u>
Total Non-Operating Cash Disbursements	<u>4,725,080</u>
Net Receipts Over/(Under) Disbursements	403,308
Restated Fund Cash Balances, January 1 (Note 2)	<u>377,242</u>
Fund Cash Balances, December 31	<u><u>\$780,550</u></u>

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

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Zanesville Muskingum County Port Authority (the Port Authority), is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Authority operates under the direction of a five-member Board of Directors. The Board is comprised of two members appointed by the City of Zanesville, two members appointed by Muskingum County, and one member appointed jointly by the City and the County. These operations involve the authorization to purchase, construct, sell, lease, and operate facilities within its jurisdiction as enumerated in Ohio Revised Code Chapter 4582.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Investments held by trustees are reported as assets. Accordingly, purchases of investments are not recorded as disbursements, and sales of investments are not recorded as receipts. Gains or losses at the time of sale are recorded as receipts or disbursements, respectively.

D. Fund Accounting

The Port Authority uses fund accounting to segregate cash that is restricted as to use. The Port Authority classifies its funds into the following types:

1. General Fund

The General Fund is the general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds are used to account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Port Authority had the following significant Special Revenue Funds:

Workforce Development Center Fund - This fund receives monies from Muskingum County to assist people in obtaining employment in Muskingum County.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

2. Special Revenue Funds (Continued)

Appalachian Workforce Initiative Fund - This fund receives grant monies to promote the local area in order to attract new business and industry.

3. Debt Service Funds

These funds are used to accumulate resources for the payment of bonds and note indebtedness. The Port Authority had the following significant debt service funds:

Ohio Water Development Authority Fund – This fund receives contributions from the City of Zanesville and Muskingum County to repay note indebtedness to the Ohio Water Development Authority.

Industrial Revenue Bond Fund – This fund receives rental and interest income to repay bonds used to construct the Anchor Glass facilities.

4. Capital Project Funds

These funds are used to account for receipts that are restricted for the acquisition or construction of major capital projects (except those financed through enterprise or trust funds). The Port Authority had the following significant capital project funds:

Rail Transfer Facility Project Fund - This fund receives grant monies and local contributions for the construction of a rail facility for the EastPointe Industrial Park.

Greenwood Avenue Project Fund – This fund receives monies from the City of Zanesville which are used in a revitalization project for the Greenwood Avenue area.

Newton JEDD Project Fund – This fund receives monies from the Newton Joint Economic Development District to assist in construction and improvements related to this district.

EastPointe Industrial Park Fund – This fund receives grant monies and local contributions for construction and improvements related to the East Pointe Industrial Park.

5. Fiduciary Funds (Trust and Agency Funds)

Funds for which the Port Authority is acting in an agency capacity are classified as agency funds. The Port Authority had the following significant agency funds:

TID Fund – This fund accounts for the operations of the Transportation Improvement District for which the Port Authority acts as fiscal agent.

Escrow Fund – This fund accounts for the retainage held and due to contractors for the performance of contract work.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process

The Ohio Revised Code requires that each fund (except certain agency funds) be budgeted annually.

1. Appropriations

Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund or function level of control, 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 Port Authority to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated. The Port Authority did not use the encumbrance method of accounting contrary to Ohio law.

A summary of 2002 and 2001 budgetary activity appears in Note 4.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. Unpaid leave is not reflected as a liability under the Port Authority's basis of accounting.

2. RESTATEMENT OF FUND CASH BALANCES

For the period ending December 31, 2002 and 2001 the Port Authority changed its basis of accounting for reporting purposes from generally accepted accounting principles to an other comprehensive basis of accounting, similar to the cash receipts and disbursements basis of accounting, which is prescribed or permitted by the Auditor of State of Ohio. In addition, the Port Authority changed the fund structure of the entity which included the creation of capital project funds, special revenue funds, and an additional debt service fund. The Port Authority also began reporting agency funds to reflect the activity of the Transportation Improvement District and escrow funds to reflect contract balances held by the Port Authority. These changes resulted in the following restatement of fund cash balances:

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

2. RESTATEMENT OF FUND CASH BALANCES (Continued)

<u>Fund Type</u>	Balance January 1, 2001	Change in Basis of Accounting	Change in Fund Classification	Effect of Addition of Agency Funds	Restated Balance January 1, 2001
General	\$ 222,052	\$95,010	\$ 349,259	\$	\$ 666,321
Special Revenue			35,422		35,422
Debt Service	366,651		(230,808)		135,843
Capital Projects			(153,873)		(153,873)
Agency				377,242	377,242
Total	<u>\$ 588,703</u>	<u>\$ 95,010</u>	<u>\$0</u>	<u>\$ 377,242</u>	<u>\$ 1,060,955</u>

3. EQUITY IN POOLED CASH

The Port Authority maintains a cash pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash at December 31 was as follows:

	<u>2002</u>	<u>2001</u>
Demand deposits	<u>\$1,237,437</u>	<u>\$882,944</u>

Deposits: Deposits are either insured by the Federal Deposit Insurance Corporation, or collateralized by the financial institution's public entity deposit pool.

Cash on Hand: At December 31, 2002 and 2001, the Port Authority had \$100 in cash on hand which is included on the accompanying financial statements.

Debt Service Trustee Funds: The Industrial Revenue Bonds trust agreement required the Port Authority to establish a lease account and bond reserve account to be maintained by a custodian bank. The Port Authority has established these accounts. At December 31, 2002 and 2001, the trustee held \$368,669 and \$371,727, respectively, in Port Authority assets. The related receipts and disbursements are reflected in the accompanying financial statements as part of the Port Authority's Debt Service Funds.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$501,000	\$381,409	(\$119,591)
Special Revenue	0	49,462	49,462
Debt Service	0	709,120	709,120
Capital Projects	0	1,692,212	1,692,212
Total	\$501,000	\$2,832,203	\$2,331,203

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$352,602	\$468,031	(\$115,429)
Special Revenue	0	122,094	(122,094)
Debt Service	0	712,179	(712,179)
Capital Projects	0	1,188,181	(1,188,181)
Total	\$352,602	\$2,490,485	(\$2,137,883)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$422,000	\$385,894	(\$36,106)
Special Revenue	0	126,370	126,370
Debt Service	0	960,875	960,875
Capital Projects	0	976,420	976,420
Total	\$422,000	\$2,449,559	\$2,027,559

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$335,550	\$786,144	(\$450,594)
Special Revenue	0	160,769	(160,769)
Debt Service	0	724,991	(724,991)
Capital Projects	0	987,147	(987,147)
Total	\$335,550	\$2,659,051	(\$2,323,501)

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

Once financial activity was sorted by projects and placed into separate funds, noncompliance with the following budgetary laws became apparent:

- a. Expenditures exceeded appropriation authority in all Port Authority funds, contrary to Ohio Revised Code Section 5705.41(B).
- b. Contrary to Ohio Revised Code Section 5705.10, at December 31, 2002, the Workforce Development Center Fund had a cash deficit balance of \$13,154 and the Appalachian Workforce Initiative Fund had a cash deficit balance of \$58,455. At December 31, 2001, the EastPointe Industrial Park Fund had a cash deficit balance of \$164,600.

5. OPERATING SUBSIDY AND GRANTS

The Port Authority receives operating subsidy funds from Muskingum County and the City of Zanesville each year in order to pay the operational expenses of the Port Authority. The Port Authority also receives a significant portion of funds used to retire debt obligations from the County and City as described in Note 6. In addition, the County and City provide additional monies, as necessary, in order to aid in the completion of capital projects undertaken by the Port Authority. The Port Authority also applies for and receives grant funds from the Ohio Department of Development and Ohio Department of Transportation to assist with these projects.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Ohio Water Development Authority Loan	\$883,289	3.00%
Industrial Revenue Bonds	1,125,000	5.125%
Total	\$2,008,289	

The Ohio Water Development Authority (OWDA) loan relates to the construction of infrastructure improvements for the Port Authority. The Port Authority entered into an agreement with the City of Zanesville and Muskingum County on April 1, 2000 related to this loan. The terms of the agreement call for the City and the County to pay annually, one-half of the required principal and interest requirements of this loan to the Port Authority. The original value of the loan for these improvements was \$2,114,068. The loan will be repaid in annual installments of \$461,616, including interest, over five years.

The Industrial Revenue Bonds were issued for the construction of the Anchor Glass Facilities owned by the Port Authority. The Port Authority leases these facilities to the City of Zanesville and Muskingum County who, in turn, rent the facilities to the Anchor Glass Corporation. These bonds were issued in 1989 with an original value of \$3,500,000. These bonds are being repaid over a period of 20 years in semiannual installments. Annual debt service requirements for these bonds are noted below.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

6. DEBT (Continued)

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	<u>OWDA Loan</u>	<u>Industrial Revenue Bonds</u>
2003	\$461,616	\$261,459
2004	461,616	246,094
2005		255,719
2006		261,500
2007		268,000
2008		242,938
Total	<u>\$923,232</u>	<u>\$1,535,710</u>

7. RETIREMENT SYSTEMS

The Port Authority's full-time employees belong to the Public Employees Retirement System (PERS) of Ohio. PERS is a cost-sharing, multiple-employer plan. This plan provides retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, PERS members contributed 8.5% of their wages. The Port Authority contributed an amount equal to 13.55% of participants' gross salaries. The Port Authority has paid all contributions required through December 31, 2002.

8. RISK MANAGEMENT

Commercial Insurance

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

- Commercial property and liability;
- Non-ownership vehicle liability;
- Public officials liability; and
- Employment practices liability;

9. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

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**Auditor of State
Betty Montgomery**

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

Zanesville Muskingum County Port Authority
Muskingum County
205 North Fifth Street
Zanesville, Ohio 43701

To the Members of the Board:

We have audited the accompanying financial statements of the Zanesville Muskingum County Port Authority, Muskingum County, Ohio (the Port Authority), as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated October 30, 2003, wherein we noted the Port Authority changed its basis of accounting and did not record encumbrances in its budgetary presentation. 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Port Authority in a separate letter dated October 30, 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 certain 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. A reportable condition is described in the accompanying Schedule of Findings as item 2002-001.

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. We believe the reportable condition described above is a material weakness. We also 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 Port Authority in a separate letter dated October 30, 2003.

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



Betty Montgomery
Auditor of State

October 30, 2003

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

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

Noncompliance Citation and Reportable Condition – Fiscal Officer’s Certification

Ohio Rev. Code § 5705.41(D) states 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 - This exception provides that, if the fiscal officer can certify that both at the time that the contract or order was made and at the time the certification is being completed, sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Board may authorize the drawing of a warrant. The taxing authority has 30 days from the receipt of such certificate to approve payment by resolution or ordinance. If approval is not made within 30 days, there is no legal liability on the part of the Port Authority.

- B. If the amount involved is less than one thousand dollars (which was increased to \$3,000 on 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.

The Port Authority did not obtain prior certification for expenditures made and the aforementioned exceptions were not followed. The Port Authority’s accounting system did not provide for the recording of appropriations and encumbrances. Had the Port Authority management chosen to obtain prior certification of funds, the Port Authority’s accounting system would not have been able to handle the task of comparing appropriations to expenditures, and the fiscal officer would have to prepare separate budgetary records in order to issue her certifications prior to the obligation of Port Authority funds.

We recommend the Port Authority obtain and implement an accounting system to enable the Port Authority to demonstrate compliance with budgetary laws. Port Authority personnel could then obtain proper certification from the fiscal officer prior to incurring any obligations.

FINDING NUMBER 2002-002

Noncompliance Citation – Negative Fund Cash Balances

Ohio Rev. Code §5705.10 states, in part, that money paid into a fund must be used only for the purposes for which said fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

At December 31, 2001, the EastPointe Industrial Park Fund had a negative fund cash balance of \$164,600. At December 31, 2002, the Workforce Development Center Fund and the Appalachian Workforce Initiative Fund had negative fund cash balances of \$13,154 and \$58,455, respectively.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2002-002 (Continued)

The Port Authority's accounting system had the ability to assign separate account numbers in order to record receipts and expenditures for each separate project. However, the accounting system was not designed for fund accounting and did not record fund activity and balances for each project. Once transactions were sorted by project and placed in separate funds, negative fund balances became apparent. Separate funds are necessary to be maintained since various sources of revenues are restricted for certain projects and, once commingled with other revenues, lose their identity.

As indicated in finding number 2002-001 above, we recommend the Port Authority obtain and implement an accounting system to enable the Port Authority to demonstrate compliance with budgetary laws. Once fund integrity is established, monies could be advanced as directed in Auditor of State Bulletin 97-003, should cash flow problems arise.

FINDING NUMBER 2002-003

Noncompliance Citation - Expenditures Limited by Appropriation Authority

Ohio Rev. Code § 5705.41(B) states that no subdivision or taxing unit shall expend any money unless it has been appropriated.

The Port Authority adopted appropriations for the Port Authority's general operations rather than adopting appropriations for both the general operations and each specific project. Expenditures eventually exceeded appropriations for the general operations and management did not adopt additional appropriations during the year. Had the Port Authority adopted sufficient appropriations, the Port Authority's accounting system would not have enabled the Port Authority's management to compare expenditures to appropriations and to record encumbrances. The fiscal officer would have needed to maintain supplemental records to make such a comparison. Had the proper funds been maintained, expenditures would have exceeded appropriations in the following funds for the year ended December 31, 2002:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$352,602	\$468,031	(\$115,429)
Workforce Development Center Fund	\$0	\$55,139	(\$55,139)
Appalachian Workforce Initiative Fund	\$0	\$66,955	(\$66,955)
Ohio Water Development Authority Fund	\$0	\$461,616	(\$461,616)
Industrial Revenue Bonds Fund	\$0	\$250,563	(\$250,563)
Rail Transfer Facility Project Fund	\$0	\$369,845	(\$369,845)
Newton JEDD Project Fund	\$0	\$106,219	(\$106,219)
Greenwood Avenue Project Fund	\$0	\$712,117	(\$712,117)

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001
(Continued)**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2002-003 (Continued)

Had the proper funds been maintained, expenditures would have exceeded appropriations in the following funds for the year ended December 31, 2001:

Fund	Appropriation Authority	Budgetary Expenditures	Variance
General Fund	\$335,550	\$786,144	(\$450,594)
Workforce Development Center Fund	\$0	\$160,769	(\$160,769)
Ohio Water Development Authority Fund	\$0	\$461,616	(\$461,616)
Industrial Revenue Bonds Fund	\$0	\$263,375	(\$263,375)
Rail Transfer Facility Project Fund	\$0	\$230,154	(\$230,154)
Airport Industrial Park Fund	\$0	\$18,058	(\$18,058)
EastPointe Industrial Park Fund	\$0	\$739,936	(\$739,936)

As indicated in finding number 2002-001 above, we recommend the Port Authority obtain and implement an accounting system to enable the Port Authority to demonstrate compliance with budgetary laws. Once a system is in place and funds are established, the Board should adopt appropriations for each fund and compare expenditures to appropriations to assure fiscal accountability is maintained.

**ZANESVILLE MUSKINGUM COUNTY
PORT AUTHORITY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-1	The Port Authority did not obtain the proper information to determine eligibility for the Workforce Development Grant.	No.	This finding is no longer valid. The Port Authority did not receive or expend these grant funds during the period under audit.



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ZANESVILLE MUSKINGUM COUNTY PORT AUTHORITY

MUSKINGUM COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 25, 2003**