

Butler County Port Authority

Regular Audit

January 1, 2007 through December 31, 2007

Fiscal Year Audited Under GAGAS: 2007

BALESTRA, HARR & SCHERER, CPAs, INC.
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Mary Taylor, CPA

Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Butler County Port Authority, Butler County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 25, 2008

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Butler County Port Authority
Butler County, Ohio

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

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

We have audited the accompanying financial statements of the business-type activities of the Butler County Port Authority (the Authority), as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express 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.

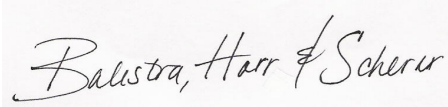
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Butler County Port Authority
Butler County
Independent Auditor's Report
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As described in Note 9, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored rectangular background.

Balestra, Harr & Scherer, CPAs, Inc.
June 20, 2008

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(UNAUDITED)

The discussion and analysis of the Butler County Port Authority (the "Port Authority") financial performance provides an overall review of the financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

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

Financial Highlights

Key financial highlights for 2007 are as follows:

- 2007 marked Port Authority finishing the first project, which was the installation of an electric lock in the City of Fairfield.
- The ending cash balance was \$68,987 or 18.07 percent greater than 2006.
- Operating expenses were \$131,839; including \$110,947 related to projects that were reimbursed through project coordination agreements.
- The first Port Authority debt financing took place. In September, the Port Authority issued \$17,905,000 in conduit revenue bonds for the Greater Miami Valley YMCA (the "YMCA").

Using this Financial Report

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

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(UNAUDITED)

Statement of Net Assets

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

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

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

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

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

Table 1 provides a summary of the Port Authority's net assets for 2006 and 2007.

| Table 1 | | |
|--------------------------|-------------------------|-------------------------|
| Net Assets | | |
| | <u>2006</u> | <u>2007</u> |
| Assets: | | |
| Current and other assets | \$111,453 | \$72,850 |
| Long term assets | <u>0</u> | <u>17,905,000</u> |
| Total Assets | <u>111,453</u> | <u>17,977,850</u> |
| Liabilities: | | |
| Current liabilities | 50,402 | 488,852 |
| Long term liabilities | <u>70,000</u> | <u>17,490,000</u> |
| Total Liabilities | <u>120,402</u> | <u>17,978,852</u> |
| Net Assets: | | |
| Unrestricted | <u>(8,949)</u> | <u>(1,002)</u> |
| Total Net Assets | <u><u>(\$8,949)</u></u> | <u><u>(\$1,002)</u></u> |

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(UNAUDITED)

During 2007, the Port Authority saw project activity increase as the Port Authority worked on a financing deal with Quaker Chemicals, Inc, demolition work agreements with Middletown Regional Hospital were being developed and a conduit debt financing was finalized with the YMCA. The largest increases in assets and liabilities relates to the conduit financing with YMCA. \$70,000 of the long term liability relates to a loan payable from Butler County Economic Development to help finance the two rail projects that will be repaid over the next several years.

Table 2 shows the changes in net assets for the year between 2006 and 2007.

Table 2
Changes in Net Assets

| | <u>2006</u> | <u>2007</u> |
|--|------------------|------------------|
| Operating Revenues: | | |
| Local contributions | \$31,000 | \$0 |
| Administrative Fees | 0 | 67,263 |
| Other operating revenues | 0 | 67,546 |
| Total Revenues | <u>31,000</u> | <u>134,809</u> |
| Operating Expenses: | | |
| Legal fees | 7,521 | 33,235 |
| Accounting service | 1,470 | 7,312 |
| Administration | 7,269 | 2,701 |
| Insurance | 3,147 | 3,117 |
| Professional services | 1,500 | 65,586 |
| Intergovernmental | 0 | 19,888 |
| Total Expenses | <u>20,907</u> | <u>131,839</u> |
| Operating Income | <u>10,093</u> | <u>2,970</u> |
| Nonoperating Revenues (Expenses): | | |
| Interest | 1,502 | 111 |
| Local contributions – rail study | 18,000 | 0 |
| ODOT LPA | 53,026 | 88,588 |
| Rail Study Expense | (80,795) | (33,722) |
| Electric Lock Installation | (30,000) | (50,000) |
| Total Nonoperating Revenue (Expense) | <u>(38,267)</u> | <u>4,977</u> |
| Increase in Net Assets | (28,174) | 7,947 |
| Net Assets, Beginning of Year | <u>19,225</u> | <u>(8,949)</u> |
| Net Assets, End of Year | <u>(\$8,949)</u> | <u>(\$1,002)</u> |

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007
(UNAUDITED)

The Port Authority saw increased activity during 2007 compared with 2006 as there were legal expenses and other professional services expenses for both the Middletown Regional Hospital and Quaker Chemical projects as the complex agreements were drawn up. The Port Authority realized project administration fees for the first time during 2007. The Port Authority received \$44,000 in connection with the YMCA conduit financing and over \$22,000 for grant applications to help finance the Middletown Regional Hospital project. The Port Authority was successful with two of three grant applications that will reduce the local cost requirement with the demolition of the former hospital facility.

Capital Assets

The Port Authority had no capital assets at December 31, 2007.

Debt

The Port Authority had no debt at December 31, 2007.

Contacting the Port Authority

This financial report is designed to provide a general overview of the finances of the Butler County Port Authority and to show the Port Authority's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: Butler County Port Authority, 315 High Street, Hamilton, Ohio 45011 or by calling (513) 785-5850.

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF NET ASSETS
 DECEMBER 31, 2007**

ASSETS:

CURRENT ASSETS:

| | |
|-------------------------------|---------------|
| Cash and Cash Equivalents | \$ 68,987 |
| Intergovernmental Receivables | 3,863 |
| TOTAL CURRENT ASSETS | <u>72,850</u> |

LONG TERM ASSETS:

| | |
|----------------------|-------------------|
| Receivable from YMCA | <u>17,905,000</u> |
|----------------------|-------------------|

| | |
|--------------|--------------------------|
| TOTAL ASSETS | <u><u>17,977,850</u></u> |
|--------------|--------------------------|

LIABILITIES:

CURRENT LIABILITIES:

| | |
|--|----------------|
| Accounts Payable | 3,852 |
| Current Portion of Revenue Bonds Payable | <u>485,000</u> |

| | |
|----------------------------|----------------|
| TOTAL CURRENT LIABILITIES: | <u>488,852</u> |
|----------------------------|----------------|

LONG TERM LIABILITIES:

| | |
|-----------------------|-------------------|
| Loans Payable | 70,000 |
| Revenue Bonds Payable | <u>17,420,000</u> |

| | |
|------------------------------|-------------------|
| TOTAL LONG TERM LIABILITIES: | <u>17,490,000</u> |
|------------------------------|-------------------|

| | |
|-------------------|-------------------|
| TOTAL LIABILITIES | <u>17,978,852</u> |
|-------------------|-------------------|

NET ASSETS:

| | |
|-------------------------|--------------------------|
| Unrestricted Net Assets | <u><u>\$ (1,002)</u></u> |
|-------------------------|--------------------------|

See accompanying notes to the financial statements

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET ASSETS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

OPERATING REVENUES:

| | |
|---------------------------|----------------|
| Administrative Fees | \$ 67,263 |
| Local Government Receipts | 45,000 |
| Project Reimbursements | <u>22,546</u> |
| Total Operating Revenues | <u>134,809</u> |

OPERATING EXPENSES:

| | |
|------------------------------|----------------|
| Operating Expenses | |
| Insurance | 3,117 |
| Legal Fees | 33,235 |
| Accounting | 7,312 |
| Professional Services | 65,586 |
| Other General Administration | 2,701 |
| Intergovernmental | <u>19,888</u> |
| Total Operating Expenses | <u>131,839</u> |
| Operating Income | <u>2,970</u> |

NONOPERATING REVENUES (EXPENSES):

| | |
|---------------------------------------|-----------------|
| Interest | 111 |
| ODOT LPA | 88,588 |
| Rail Study Expense | (33,722) |
| Electric Lock Installation | <u>(50,000)</u> |
| Total Nonoperating Revenues (Expense) | <u>4,977</u> |

CHANGE IN NET ASSETS

| | |
|------------------------------|-------------------|
| | 7,947 |
| Net Assets Beginning of Year | <u>(8,949)</u> |
| Net Assets End of Year | <u>\$ (1,002)</u> |

See accompanying notes to the financial statements

**BUTLER COUNTY PORT AUTHORITY
 BUTLER COUNTY, OHIO
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2007**

| | |
|--|------------------|
| Cash flows from operating activities: | |
| Cash received from customers | \$ 134,809 |
| Cash payments to supplier for goods and services | (128,922) |
| Proceeds from sale of conduit revenue bonds | 17,905,000 |
| Interest received from conduit revenue bonds | 209,954 |
| Cash payments to YMCA for construction expenses | (17,352,011) |
| Cash payments for other YMCA conduit financing costs | (762,943) |
| Net cash provided by operating activities | <u>5,887</u> |
| Cash flows from noncapital financing activities: | |
| Local Contributions for Rail Study | 137,751 |
| Cash payments for Rail Study and Electric Lock installation | (133,189) |
| Net cash provided by noncapital financing activities | <u>4,562</u> |
| Cash flows from investing activities: | |
| Interest received | <u>111</u> |
| Net cash provided by investing activities | <u>111</u> |
| Net Increase in Cash and Cash Equivalents | 10,560 |
| Cash and cash equivalents at beginning of year | <u>58,427</u> |
| Cash and cash equivalents at end of year | <u>\$ 68,987</u> |
| Reconciliation of operating income to net cash provided by operating activities | |
| Operating Income | 2,970 |
| Adjustments to reconcile operating loss to net cash used for operating activities | |
| Increase in Accounts Payable | <u>2,917</u> |
| Net cash used for operating activities | <u>\$ 5,887</u> |

See accompanying notes to the financial statements

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BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

1. DESCRIPTION OF THE REPORTING ENTITY

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation

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

B. Measurement Focus and Basis of Accounting

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

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

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

C. Budgetary Data

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

D. Cash and Cash Equivalents

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

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

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Intergovernmental Receivable

Receivables recorded on the Port Authority's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation, but also by a reasonable systematic method of determining their existence, completeness, valuation and collectibility. The Port Authority had receivables related to the local participation agreement with the Ohio Department of Transportation in connection with the Butler County Freight Rail Study at December 31, 2007.

F. Organizational Costs

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

G. Operating and Non-Operating Revenues and Expenses

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

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

H. Accrued Liabilities

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

The Port Authority recognized a loan payable from Butler County Economic Development to aid in the payment for services in connection with CSX Electric Lock Switch. The loan payable is considered long term as it will be repaid with user charges over the next three years through a reimbursement contract with CSX.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Net Assets

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

J. Conduit Debt Financing

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

K. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

3. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Port Authority as:

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

Deposits

At fiscal year-end, the carrying value of the Port Authority's deposits was \$68,987 and the bank balance was \$68,987. The entire bank balance was insured by federal depository insurance. Based on criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of December 31, 2007, none of the deposits were exposed to custodial credit risk.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

3. DEPOSITS AND INVESTMENTS (continued)

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

Investments

As of December 31, 2007, the Port Authority had no investments.

4. CAPITAL ASSETS

As of December 31, 2007, the Port Authority had no capital assets.

5. RISK MANAGEMENT

The Port Authority is covered by general liability and public official liability insurance with the National Union Fire Insurance Company of Pittsburg, PA. Coverage with a private carrier provides bonding, liability insurance on the \$1,000,000 maximum per claim and in aggregate. There is no general liability coverage as the Port Authority does not maintain a separate place of business or have employees to insure. Settled claims resulting from these risks have not exceeded commercial insurance coverage since 2006. There were no changes in coverage from the prior year.

6. LOANS PAYABLE

During 2006, the Port Authority received two loans from Butler County Economic Development (BCED) in the amounts of \$20,000 and \$50,000, respectively. Those loans will be repaid to BCED through 100% of any funds to which the Port Authority is entitled pursuant to the terms of the agreement with CSX, Inc. with respect to the CSX electric lock switch replacement project described in the Project Note 7. The Port Authority is to repay loans promptly upon receipt of the refunds. The loan obligation will continue until the earlier of five years from the date of the CSX agreement or the date on which the County has received \$70,000 from the Port Authority. During 2007, the Port Authority did not receive any reimbursements from CSX, Inc. and therefore made no payments on the loan payable.

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

6. LOANS PAYABLE (continued)

The Port Authority has pledged a portion of the future refund revenues to repay the \$70,000 in loan payable in 2006 that paid from the electric lock replacement. 100% of refund revenues are pledged until the loan is paid in full or 2011 whichever comes first. The amount of refund revenue is undeterminable at December 31, 2007.

7. CONDUIT DEBT PAYABLE

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

The following revenue bond was collateralized by either both of a pledge of the revenues of the borrowing institution (which is not determinable by the Port Authority or required to be determined under the loan covenant) or by first mortgages on the physical property financed with the proceeds of the debt offerings and by the Port Authority's assignment of its interest in the mortgage properties to the trustee of the bond issue at December 31, 2007:

| Revenue Bond | Maturity Date | Interest Rate | Principal Balance as of 12/31/07 |
|--------------------------------------|----------------------|----------------------|---|
| Greater Miami Valley YMCA Project | 09/01/2037 | Varies | \$17,905,000 |

8. PROJECTS

Electric Lock/Switch Replacement

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

BUTLER COUNTY PORT AUTHORITY
BUTLER COUNTY, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2007

8. PROJECTS (continued)

Quaker Chemicals Expansion

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

Middletown Regional Hospital (the "Hospital") Demolition Project

During 2007, the Port Authority was awarded a \$1.8 million grant from the Clean Ohio Revitalization Fund for the demolition and revitalization of the facility located on McKnight Drive in Middletown. The Port Authority and Hospital have been working on a construction agency agreement and purchase-sale agreement that will allow for the old Hospital facility to be demolished and then sold to a developer that will turn the site into market rate homes. This project will start in 2008.

9. CHANGE IN ACCOUNTING PRINCIPLES

During 2007, the Port Authority implemented GASB 48, "*Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.*" The Port Authority does have a loan payable that is subject to note disclosure required with the implementation of this GASB statement (See Note 6.) The implementation of this GASB statement does not require restatement of the beginning net assets.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited the accompanying financial statements of the business-type activities of the Butler County Port Authority (the Authority), as of and for the year ended December 31, 2007, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 20, 2008, wherein we noted the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 48. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Members of the Board

Butler County Port Authority

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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



Balestra, Harr & Scherer, CPAs, Inc.
June 20, 2008



Mary Taylor, CPA
Auditor of State

BUTLER COUNTY PORT AUTHORITY

BUTLER COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 9, 2008**