SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2007

Mary Taylor, CPA
Auditor of State

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

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Mary Taylor, CPA
Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

Southeastern Ohio Port Authority
Washington County
200 Putnam Street, Room 504
Marietta, Ohio 45750

To the Board of Directors:

We have audited the accompanying financial statements of the business-type activities of the Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the Port Authority's basic financial statements 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 Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Southeastern Ohio Port Authority, Washington County, as of December 31, 2007, and the 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 July 24, 2008, 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 grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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The Port Authority has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 24, 2008

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Assets		
Equity in Pooled Cash and Cash Equivalents	$	133,587
Intergovernmental Receivable		224,953
Loan Receivable		43,708
Capital Assets, Net of Depreciation		4,447
Prepaid Insurance		1,138
Total Assets		407,833
Liabilities		
Current Liabilities:		
Notes Payable		14,824
Accounts Payable		48,890
Current Portion of Loan Payable		2,063
Total Current Liabilities		65,777
Long-Term Liabilities (Net of Current Portion):		
Loan Payable		41,032
Total Long-Term Liabilities		41,032
Total Liabilities		106,809
Net Assets		
Invested in Capital Assets		4,447
Unrestricted		296,577
Total Net Assets	$	301,024

See accompanying notes to the basic financial statements

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2007

Operating Revenues	
Donations	$ 117,250
Intergovernmental	252,431
Miscellaneous	1,382
Total Operating Revenues	371,063
Operating Expenses	
Salaries and Benefits	138,206
Contractual Services	204,751
Professional Fees	10,214
Materials and Supplies	5,422
Travel and Memberships	9,662
Marketing	9,765
Rent	6,000
Insurance and Bonding	2,455
Depreciation Expense	1,680
Other	106
Total Operating Expenses	388,261
Operating Gain	(17,198)
Non-Operating Revenue/(Expense):	
Interest Income	3,111
Interest and Fiscal Charges	(1,326)
Change in Net Assets	(15,413)
Net Assets Beginning of Year	316,437
Net Assets End of Year	$ 301,024

See accompanying notes to the basic financial statements

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007

Increase (Decrease) in Cash and Cash Equivalents		
Cash Flows from Operating Activities		
Cash Received from Donors	$	117,250
Cash Received from Grants		227,478
Cash Payments for Employee Services and Benefits		(138,833)
Cash Payments for Goods and Services		(204,720)
Other Operating Revenues		1,382
Net Cash Provided by Operating Activities		2,557
Cash Flows from Capital and Related Financing Activities		
Proceeds of Line of Credit		14,824
Principal Paid on Debt		(2,002)
Interest and Fiscal Charges Paid on Debt		(1,326)
Net Cash Used for Capital and Related Financing Activities		11,496
Cash Flows from Investing Activities		
Interest Earned from Bank Accounts		1,323
Interest from Business Loan		1,788
Principal from Business Loan		1,847
Net Cash Provided by Investing Activities		4,958
Net Increase in Cash and Cash Equivalents		19,011
Cash and Cash Equivalents Beginning of Year		114,576
Cash and Cash Equivalents End of Year	$	133,587
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating Income	$	(17,198)
Depreciation		1,680
Changes in Assets and Liabilities:		
Increase in Intergovernmental Receivable		(24,953)
Decrease in Prepaid Insurance		56
Decrease in Accounts Payable		43,599
Decrease in Accrued Payroll Tax Liabilities		(627)
Net Cash Provided by Operating Activities	$	2,557

See accompanying notes to the basic financial statements

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NOTE 1 - REPORTING ENTITY

The Southeastern Ohio Port Authority, Washington County (the Port Authority), was created during 2003 by the Washington County Commissioners pursuant to Sections 4582.202 through 4582.58, inclusive, of the Ohio Revised Code, for the purpose of promoting the manufacturing, commerce, distribution and research and development interests of Southeastern Ohio, including rendering financial and other assistance to such enterprises situated in the region and to induce the location in Southeastern Ohio of other manufacturing, commerce, distribution and research entities; to purchase, subdivide, sell and lease real property in Southeastern Ohio and erect or repair any building or improvement for the use of any manufacturing, commerce, distribution, or research and development enterprise in Southeastern Ohio.

The Port Authority Board of Directors consists of the number of Directors it deems necessary and they are appointed by the Washington County Commissioners. As such, it is considered a discretely presented component unit of Washington County. Currently, 11 Directors serve on the Board.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, to its business-type activities provided they do not conflict with or contradict GASB pronouncements. The Port Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities.

A. Basis of Presentation

The Port Authority's financial statements consist of government-wide statements, including the statement of net assets, statement of revenues, expenses and changes in net assets, and statement of cash flows.

B. Measurement Focus

The government-wide financial statements are prepared using the 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 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 business-type activities.

C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

Revenues - Exchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place.

Expenses: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

D. Budgetary Process

The Ohio Revised Code requires that the Port Authority Board of Directors prepare an annual budget.

Appropriations: Budgetary expenditures (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function level, and appropriations may not exceed estimated resources. The Board of Directors must annually approve appropriation measures and subsequent amendments.

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

Encumbrances: The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are canceled, and reappropriated in the subsequent year. The Port Authority did not encumber all commitments required by Ohio law.

E. Cash

All cash assets are maintained in non-interest bearing checking accounts and an interest bearing savings account.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than $500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. All reported capital assets are depreciated. Depreciation is computed using the straight-line method over five years of useful lives for equipment and furniture.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

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. 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, or laws or regulations of other governments. The Port Authority did not have any restricted net assets.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as non-operating.

K. Estimates

The preparation of the 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.

NOTE 3 - COMPLIANCE

The Port Authority did not properly encumber funds in accordance with Ohio Rev. Code Section 5750.41(D).

NOTE 4 – DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Port Authority into three categories.

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

Inactive deposits are public deposits that the Port Authority has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

Protection of the Port Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

Interim monies may be deposited or invested in the following securities:

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;

3. Written repurchase agreements in securities listed above;

4. Bonds and other obligations of the State of Ohio or its political subdivisions;

5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;

6. No-loan money market mutual funds;

7. The State Treasurer's investment pool (STAROhio);

8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;

9. Commercial paper notes, corporate notes and bankers acceptances; and

10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

Reverse repurchase agreements, investments in derivatives, and investments in stripped principal or interest obligations that are not issued or guaranteed by the United States, are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Historically, the Port Authority has not purchased these types of investments or issued these types of notes. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Port Authority, and must be purchased with the expectation that it will be held to maturity.

Investment may only be made through specified dealers and institutions. Payments for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits: The Port Authority has no deposit policy for custodial risk beyond the requirements of State statute.

NOTE 4 – DEPOSITS AND INVESTMENTS (Continued)

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.

NOTE 5 – RECEIVABLES

Receivables at December 31, 2007, consisted of intergovernmental and loans receivable. All receivables are considered collectible in full.

A. Intergovernmental Receivable

A summary of the principal items of intergovernmental receivables arising from grants awarded to the Port Authority follows:

	Amount
EPA Brownfield Assessment Grant	$148,290
ODOD Third Frontier Internship Program Grant	52,719
ODOD Business Park Grant	23,944
Total Governmental Activities	$224,953

B. Loan Receivable

The Port Authority loaned $50,000 to Kardex for economic development purposes. The loan was granted at 4.00% over a twenty-year period. Monthly payments from Kardex are expected to be $302. Accordingly, the Port Authority has recorded a loan receivable and interest revenue.

Future cash flows from the loan receivable are estimated to be as follows:

Year Ending December 31:	Total Payments	Principal Portion	Interest Portion
2008	$ 3,636	$ 1,923	$ 1,713
2009	3,636	2,001	1,635
2010	3,636	2,082	1,554
2011	3,636	2,167	1,469
2012	3,636	2,256	1,380
2013-2017	18,179	12,733	5,446
2018-2022	18,179	15,547	2,632
2023-2024	5,150	4,999	151
Total	$ 59,688	$ 43,708	$ 15,980

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was a follows:

	Balance December 31, 2006	Additions	Balance December 31, 2007	Accumulated Depreciation	Net Capital Assets
Business-Type Activities					
Depreciable Captial Assets:					
Equipment and Furniture	$ 6,489	0	$ 6,489	$ (2,042)	$ 4,447

NOTE 7 – RISK MANAGEMENT

The Port Authority carries a Commercial General Liability Insurance Policy with limits of $1 million each occurrence, $100,000 damage to rented premises each occurrence, $5,000 med pay any one person, $1 million personal and advanced injury with a general aggregate of $2 million.

The Port Authority maintains a Non-Profit Organization and Management Liability Insurance Policy – Carrier's Duty to Defend Policy with $500,000 aggregate coverage to cover Board Officers and Directors.

In addition, the Port Authority carries a Public Official Bond for the Secretary/Treasurer in the amount of $25,000.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

Plan Description – The Port Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs and township police) and public safety divisions exist only within the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll.

The Port Authority's contribution rate for 2007 was 13.85 percent of covered payroll. For the period January 1 through June 30, a portion of the Port Authority's contribution equal to 5 percent of covered payroll was allocated to fund the post-employment health care plan; for the period July 24 through December 31, 2007 this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the Port Authority of 14 percent.

NOTE 8 – DEFINED PENSION PLAN (Continued)

The Port Authority's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2007 and 2006 were $14,787 and $10,573, respectively; 100 percent has been contributed for 2007 and 2006.

NOTE 9 – POSTEMPLOYMENT BENEFITS

Plan Description – OPERS maintains a cost sharing multiple employer defined benefit post-employment health care plan for qualifying members of both the traditional and combined pension plans. Members of the member directed plan do not qualify for ancillary benefits, including post-employment health care. The plan includes a medical plan, a prescription drug program and Medicare Part b premium reimbursement.

To qualify for post-employment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not require, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 4642 or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401 (h). State statute requires that public employers fund post-employment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of post-employment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll. Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding post-employment health care benefits. The amount of the employer contributions which was allocated to fund post-employment health care was 5.00 percent of covered payroll from January 1 through June 30, 2007, and 6.00 percent from July 24 to December 31, 2007.

The Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The Port Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2007 and 2006 were $5,875 and $3,473, respectively; 100 percent has been contributed for 2007 and 2006.

On September 9, 2004 the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

NOTE 10 - LONG-TERM DEBT

Long-term debt outstanding at December 31, 2007 was as follows:

	Interest Rate	Balance December 31, 2006	Deletions	Balance December 31, 2007	Due Within One Year
Business-Type Activities					
Loan Payable					
Washington County Commissioners	3.00%	$ 45,097	$ (2,002)	$ 43,095	$ 2,063

The Washington County Loan relates to an economic development loan to the Port Authority for $50,000 in 2004. The Port Authority, in turn, loaned the monies received to a local business. The Port Authority is required to make monthly payments of $277.30 to Washington County.

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

Year Ending December 31:	Principal	Interest	Total
2008	$ 2,063	$ 1,265	$ 3,328
2009	2,126	1,202	3,328
2010	2,190	1,138	3,328
2011	2,257	1,071	3,328
2012	2,326	1,002	3,328
2013-2017	12,733	3,905	16,638
2018-2022	14,791	1,847	16,638
2023-2024	4,609	105	4,714
Total	$ 43,095	$ 11,535	$ 54,630

NOTE 11 - SHORT-TERM DEBT

On October 23, 2007 the Port Authority obtained a line of credit of $500,000 with an interest rate of six percent to mature on October 23, 2008. The Port Authority was awarded a $500,000 reimbursement type grant and obtained the line of credit in order to have cash available for the grant expenditures. At December 31, 2007, the Port Authority had a balance of $14,824 on the line of credit.

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southeastern Ohio Port Authority
Washington County
200 Putnam Street, Room 504
Marietta, Ohio 45750

To the Board of Directors:

We have audited the financial statements of the business-type activities of the Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2007, which collectively comprise the Port Authority's basic financial statements and have issued our report thereon dated July 24, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the Port Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Port Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 Port Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the Port Authority's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider the following deficiency described in the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting: 2007-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the Port Authority's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We do not believe the significant deficiency described above is a material weakness.

We also noted certain internal control matters that we reported to the Port Authority's management in a separate letter dated July 24, 2008.

Compliance and Other Matters

As part of reasonably assuring whether the Port Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards,* which are described in the accompanying Schedule of Findings as items 2007-001 and 2007-002.

We also noted certain noncompliance or other matters not requiring inclusion in this report that we reported to the Port Authority's management in a separate letter dated July 24, 2008.

The Port Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit the Port Authority's responses and, accordingly, we express no opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

July 24, 2008

FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS

FINDING NUMBER 2007-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

1. "Then and Now" Certificate - If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that 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 Port Authority can authorize the drawing of a warrant for the payment of the amount due. The Port Authority has thirty days from receipt of the "then and now" certificate to approve payment by ordinance or resolution.

   Amounts of less than $3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Port Authority.

2. Blanket Certificate - Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

3. Super Blanket Certificate - The Port Authority may also make expenditures and contracts for any amount from a specific line item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to exceed beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Port Authority did not properly certify the availability of funds prior to purchase commitment for seventy-seven percent of the expenditures tested, of which sixty-six percent of the expenditures tested were for the Third Frontier Internship Program Grant and nine percent were for the Brownfield Assessment Grant. There was no evidence that the Port Authority followed the aforementioned exceptions. Failure to properly certify the availability of funds can result in overspending funds. In addition, the Port Authority did not establish a threshold amount for blanket certificates.

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

FINDING NUMBER 2007-001 (Continued)

Noncompliance Citation - Ohio Rev. Code Section 5705.41(D)(1) (Continued)

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Port Authority's funds exceeding budgetary spending limitations, we recommend that the Secretary-Treasurer certify that the funds are or will be available prior to an obligation being incurred by the Port Authority. When prior certification is not possible, "then and now" certification should be used.

We recommend the Port Authority certify purchases to which Section 5705.41(D) applies. The Secretary-Treasurer should sign the certification at the time the Port Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. In addition we recommend the Board of Directors establish a threshold for which blanket certificates may not exceed if they wish to begin issuing regular blanket certificates.

Officials' Response: The failure to obtain certification of availability of funds stems almost entirely from two line items: Third Frontier Internship and Brownfield Assessment. These line items are paid through grant funds from the Ohio Department of Development and U.S. EPA, respectively. As per grant agreements, payment of invoices from these line items requires proper documentation prior to expenditure of grant funds. It was erroneously thought that these grant-specific steps made purchase orders/certifications unnecessary. Further clarification has been received from the State Auditor's staff to ensure that appropriate purchase orders, blanket purchase orders, super-blanket purchase orders and Then and Now Certificates are completed from now on for all expenditures.

FINDING NUMBER 2007-002

Noncompliance Citation and Significant Deficiency

Ohio Admin. Code Section 117-2-02(A) states that all local public offices shall maintain an accounting system and accounting records sufficient to enable the public office to identify, assemble, analyze, classify, record and report its transactions, maintain accountability for the related assets (and liabilities, if generally accepted accounting principles apply), document compliance with finance-related legal and contractual requirements and prepare financial statements required by Ohio Admin. Code Section 117-2-03.

Several errors were noted as follows:

- Grant expenditures in the amount of $13,990 were not recorded on the Profit and Loss Statement;
- The balance sheet reported an "EPA Brownfield Encumbrances" liability of $186,010 which was not a liability; Amounts receivable from the ODOD Third Frontier Internship Program and the ODOD Business Park Grant were understated by $40,665 and $9,120, respectively; and
- Accounts payable were understated by $48,890 for goods or services received prior to December 31, 2007 that were not paid until 2008.

As a result, these significant adjustments, with which the Port Authority's management agrees, were made to the financial statements.

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

FINDING NUMBER 2007-002 (Continued)

Noncompliance Citation and Significant Deficiency - Ohio Admin. Code Section 117-2-02(A) (Continued)

We recommend that the Port Authority record all transactions into the accounting system and financial statements.

Officials' Response: To date, the Port Authority has used QuickBooks software to maintain financial records. QuickBooks is designed for business GAAP accounting and not as much governmental or fund accounting. Proper recording of transactions within QuickBooks, especially of grant fund transactions, has proven difficult. Particularly, Port Authority staff has tried to show pass-through grants as not just assets but also as corresponding liabilities since to do otherwise would make the Port Authority appear overstated with unrestricted assets. Port Authority staff has sought the pro bono services of a CPA to help prepare the financial statements. The CPA has been very helpful, but the CPA's expertise is not in governmental accounting. After a recent meeting with the County Auditor and Finance Committee, a decision has been made to prepare statements according to "funds" on a cash basis. Changing report formats and switching from the accrual method of accounting to the cash method of accounting should greatly eliminate posting errors and misclassifications. Conversion to the accrual method of accounting will be made at year end for auditing purposes. Creating a fund-based system of statements will also help the Board and staff to keep expenditures in line with appropriations.

SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
2006-001	Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing authority from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The Port Authority did not properly certify the availability of funds prior to purchase commitment for 63 percent of the expenditures tested.	No	Not corrected; see Finding Number 2007-001 in the current audit Schedule of Findings.

Mary Taylor, CPA
Auditor of State

SOUTHEASTERN OHIO PORT AUTHORITY

WASHINGTON 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
AUGUST 28, 2008

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