



Dave Yost • Auditor of State

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Lorain County Port Authority
Lorain County
226 Middle Avenue
Elyria, Ohio 44035

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Lorain County Port Authority, Lorain County, Ohio (the Authority), a component unit of Lorain County, Ohio as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

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 and the aggregate remaining fund information of the Lorain County Port Authority, Lorain County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2014, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

June 26, 2014

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

The following Management's Discussion and Analysis (MD&A) of the Lorain County Port Authority's (the Authority) financial performance provides an introduction to the financial statements for the year ended December 31, 2013. The information contained in this MD&A should be considered in conjunction with the information contained in the Authority's financial statements.

FINANCIAL HIGHLIGHTS

- At December 31, 2013, the assets of the Authority exceeded the liabilities by \$4,486,744.
- Total net position for 2013 increased by \$135,540 or 3.1% which is an increase from 2012, in which net position increased \$68,406 or 1.6% from 2011.
- The Authority's total revenues amounted to \$498,528 in 2013, of which \$108,023 or 21.7% were operating revenues and \$390,505 or 78.3% were non-operating revenues.
- The Authority had \$362,988 in total expenses in 2013, of which \$342,978 or 94.5% were operating expenses and \$20,010 or 5.5% were non-operating expenses.

FINANCIAL STATEMENTS

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

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

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

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

Statement of Fiduciary Net Position - The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the Authority under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Authority's own programs. The Authority has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Authority's agency fund consists of the Lorain County Land Reutilization Corporation. A Fiduciary Fund statement is on page 10 of this report.

Other Information

Notes to the Basic Financial Statements:

The notes provide additional and explanatory data. They are an integral part of the basic financial statements. Notes to the Basic Financial Statements can be found starting on page 11 of this report.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

FINANCIAL POSITION

The following represents the Authority's financial position for the years ended December 31, 2013 and December 31, 2012:

**Table 1
Lorain County Port Authority
Net Position**

	2013	2012 Restated
ASSETS:		
Current and Other Assets	\$5,926,827	\$4,321,193
Capital Assets, Net of Depreciation	1,795,205	1,793,963
Total Assets	7,722,032	6,115,156
 LIABILITIES:		
Current and Other Liabilities	2,825,607	1,763,952
Long-Term Liabilities	409,681	0
Total Liabilities	3,235,288	1,763,952
 NET POSITION:		
Invested in Capital Assets, Net	1,766,636	1,793,963
Restricted - Bond Fund Program Reserves	2,512,668	2,525,233
Unrestricted (Deficit)	207,440	32,008
Total Net Position	\$4,486,744	\$4,351,204

2013 was the twelfth year of operations for the Authority. Restricted Assets and Restricted Net Position represents grant funds from the State of Ohio Department of Development and Lorain County along with designated interest earnings. These funds are held in a trust with U.S. Bank to cover debt service payments in the event a borrower participating in the Authority's Bond Fund Program is unable to make the required payments.

"Loan Payable - County" represents the cumulative operating costs incurred by the Authority that have been paid by Lorain County.

During 2013, the Authority's overall financial position increased by \$135,540.

- Total Assets increased \$1,606,876 from 2012 and Total Liabilities increased \$1,471,336 from 2012 due mainly to an increase in accounts receivable and the bond anticipation note.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

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

**Table 2
Lorain County Port Authority
Revenues, Expenses and Changes in Net Position**

	2013	2012 Restated
Operating Revenues	\$108,023	\$257,378
Operating Expenses	(342,978)	(243,510)
Operating Income (Loss)	(234,955)	13,868
Non-Operating Revenues	390,505	65,540
Non-Operating Expenses	(20,010)	(11,002)
Change in Net Position	135,540	68,406
Net Position, Beginning of Year	4,351,204	4,282,798
Net Position, End of Year	<u>\$4,486,744</u>	<u>\$4,351,204</u>

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

- Operating Revenues decreased \$149,355 from 2012 due mainly to a reduction in rental income.
- Non-Operating Revenues increased \$324,965 from 2012 due mainly to a refund of property taxes paid in prior years.
- Operating Expenses increased \$99,468 from 2012 due mainly to an increase in professional services.

Due to a slower than expected economy and limited financial resources available to the Authority, growth has been below expectations. The difficult national economy combined with the pressure placed on rating agencies by the Federal Bank Regulators caused by concerns with "hedge funds" will likely cause a slowdown in the Authority's ability to issue bond debt. Therefore the Authority has taken its direction into property ownership and management.

Further, a legal opinion has been rendered for the Authority that they can own, buy, sell, and accept donations of real property including but not limited to land and buildings. On April 30, 2014, the Ohio Department of Taxation rendered its opinion that the Authority is exempt from taxation under R.C. 4582.46 on properties that the Authority owns and uses as port authority facilities. It further deemed that property situated at 540/530 Abbe Rd. S meets this criterion and therefore, the Authority is exempt from property taxes on this facility. In May of 2014, Lorain County refunded \$173,653.24 to the Authority. This represents the property taxes paid by the Authority for 2010, 2011, and 2012.

The Authority continues to receive applications and associated application fees from various companies. These applications are generating future activity for the growth of the Authority. Lorain County directed all Industrial Revenue Bonds (IRB) to be processed by the Authority beginning midyear 2008. Prior to this shift in policy by the Board of Commissioners the Lorain County Industrial and Economic Industrial Development Corporation (CIC) had issued IRB debt. All fees and interest payments are made and retained by the Authority generated by IRB's. However, due to the market conditions stated above; the Authority's activity has stagnated. We continue to receive inquiries about Authority lending, and we are seeking out market solutions, including but not limited to, partnership with other local Port Authorities and alternative mechanisms to provide finance to local companies.

**LORAIN COUNTY PORT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UNAUDITED)**

CAPITAL ASSETS

The Authority's investment in capital assets as of December 31, 2013, amounts to \$1,795,205 (net of accumulated depreciation). This investment in capital assets consists of land, two buildings, building improvements, and a vehicle. The total increase of \$1,242 in the Authority's investment in capital assets for the current year was due to reclassifying land and the addition of a vehicle.

Table 3
Lorain County Port Authority
Capital Assets, Net of Depreciation

	2013	2012 Restated
Land	\$350,482	\$350,482
Buildings	1,118,672	1,143,501
Building Improvements	297,441	299,980
Vehicles	28,610	0
Total Capital Assets, Net of Depreciation	<u>\$1,795,205</u>	<u>\$1,793,963</u>

Additional detailed information relating to the Authority's capital assets is contained in Note 6 of the Notes to the Basic Financial Statements.

DEBT

At December 31, 2013, the Authority had outstanding conduit debt of \$2,700,000 in revenue bond anticipation notes and a capital lease of \$28,569. The Authority issued the debt to assist a third party in acquiring real property. The third party is responsible for repaying the debt. The debt is to be primarily paid by the Lorain County Land Reutilization Corp. The outstanding Loan Payable – County of \$391,221 represents the cumulative operating costs incurred by the Authority that have been paid by Lorain County. The capital lease was for a maintenance truck.

Additional information regarding the Authority's capital lease, conduit debt, and loan payable-County can be found in Notes 7, 12, and 16, respectively, of this report.

Table 4
Long Term Debt
(As of end of each year)

	2013	2012
Bond Anticipation Notes	\$2,700,000	\$1,200,000
Loan Payable - County	391,221	\$0
Capital Lease	28,569	0
Total Long Term Debt	<u>\$3,119,790</u>	<u>\$1,200,000</u>

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Lorain County Port Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Patrick Metzger, Lorain County Port Authority, 226 Middle Avenue, Elyria, OH 44035.

Lorain County Port Authority
Statement of Net Position
As of December 31, 2013

Assets

Current Assets:

Cash and Cash Equivalents	\$488,623
Accounts Receivable	2,751,883
Intergovernmental Receivable	173,653

Total Current Assets	<u>3,414,159</u>
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Noncurrent Assets:

Restricted Bond Fund Program Reserves	2,512,668
Capital Assets:	
Non-Depreciable Capital Assets	350,482
Depreciable Capital Assets, Net	1,444,723

Total Capital Assets	<u>1,795,205</u>
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Total Noncurrent Assets	<u>4,307,873</u>
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Total Assets	<u>7,722,032</u>
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Liabilities

Current Liabilities:

Accounts Payable	31,598
Accrued Wages	2,830
Security Deposits Payable	2,600
Bond Anticipation Note	2,700,000
Intergovernmental Payable - County	36,160
Intergovernmental Payable - State	4,810
Judgments Payable	37,500
Lease Payable-Current	10,109

Total Current Liabilities	<u>2,825,607</u>
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Noncurrent Liabilities:

Loan Payable - County	391,221
Lease Payable	18,460

Total Noncurrent Liabilities	<u>409,681</u>
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Total Liabilities	<u>3,235,288</u>
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Net Position

Net Investment in Capital Assets	1,766,636
Restricted - Bond Fund Program Reserves	2,512,668
Unrestricted	207,440

Total Net Position	<u>\$4,486,744</u>
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See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2013

Operating Revenue	
Charges for Services	\$8,733
Donations	10,592
Rent	71,144
CVB-Other Monthly Fees	17,554
Total Operating Revenue	<u>108,023</u>
Operating Expenses	
Advertising	3,490
Abatement	2,300
Bank Fees	25,431
Condominium	54,820
Commercial	5,550
Dues	1,087
Fiscal Training	100
Insurance	52
Depreciation	34,297
Judgment	12,500
Miscellaneous	3,804
Postage	122
Printing	47
Professional Services	129,606
Tools & Supplies	11,347
Office Supplies	1,180
Scholarships	5,000
Economic Development Activity	5,000
Payroll	19,364
Fringe Benefits	10,008
Property Taxes	9,543
Trustee Fees	6,000
Vehicle	1,472
Equipment Maintenance	858
Total Expenses	<u>342,978</u>
Operating (Loss)	(234,955)
Non-Operating Revenues (Expenses)	
Subsidy-County	50,000
Administrative Fees	14,124
Management Fees	28,908
Bond Issuance Fees	110,490
Interest Income	13,330
Other	173,653
Interest Expense	(20,010)
Total Non-Operating Revenues (Expenses)	<u>370,495</u>
Change in Net Position	135,540
Total Net Position, Beginning of Year, Restated	<u>4,351,204</u>
Total Net Position, End of Year	<u><u>\$4,486,744</u></u>

See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Cash Flows
For the Year Ended December 31, 2013

<u>Cash Flow From Operating Activities</u>	
Cash Received from Customers	\$101,438
Cash Payments to Suppliers for Goods and Services	(318,441)
Cash Payments to Employees for Services	(18,666)
Cash Payments for Employee Benefits	(4,924)
Net Cash (Used for) Operating Activities	<u>(240,593)</u>
<u>Cash Flow From Noncapital Financing Activities</u>	
Subsidy Received	50,000
Administrative Fee	7,000
Bond Issuance Fees	110,490
Interest Income	13,890
Proceeds from Bond Anticipation Note	2,700,000
Loans to Other Entities	(1,500,000)
Repayment of Loan Payable-County	(5,671)
Repayment of Intergovernmental Payable-State	(7,626)
Principal Payments	(1,200,000)
Interest Expense	(30,480)
Net Cash Provided by Noncapital Financing Activities	<u>137,603</u>
<u>Cash Flow From Capital Financing Activities</u>	
Acquisition of Capital Assets	(3,750)
Payments for Capital Lease	(3,219)
Interest Payments	(678)
Net Cash (Used for) Capital Financing Activities	<u>(7,647)</u>
Net Decrease in Cash and Cash Equivalents	(110,637)
Cash and Cash Equivalents, Beginning of Year (Includes Restricted Bond Fund Program Reserves)	<u>3,111,928</u>
Cash and Cash Equivalents, End of Year (Includes Restricted Bond Fund Program Reserves)	<u>\$3,001,291</u>
<u>Reconciliation of Operating (Loss) to Net Cash (Used for) Operating Activities</u>	
Operating (Loss)	(\$234,955)
Depreciation	34,297
Accounts Receivable	(10,516)
Accounts Payable	(49,142)
Accrued Wages and Benefits	2,830
Judgments Payable	12,500
Intergovernmental Payable	4,393
Net Cash (Used for) Operating Activities	<u>(\$240,593)</u>

Non-Cash Capital Activities:

Capital lease obligations of \$31,789 were incurred when the Authority entered into a capital lease for a maintenance truck.

See accompanying notes to the basic financial statements.

Lorain County Port Authority
Statement of Fiduciary Net Position
Fiduciary Fund
December 31, 2013

	<u>Agency</u>
Assets	
Equity in Pooled Cash and Cash Equivalents	\$2,438,524
Intergovernmental Receivable	<u>29,700</u>
<i>Total Assets</i>	<u><u>\$2,468,224</u></u>
Liabilities	
Undistributed Monies	<u>2,468,224</u>
<i>Total Liabilities</i>	<u><u>\$2,468,224</u></u>

See accompanying notes to the basic financial statements.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

The Authority's financial reporting entity has been defined in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 "The Reporting Entity," as amended by GASB 61. The financial statements include all agencies, divisions and operations for which the Authority is financially accountable. Financial accountability exists if a primary government/component unit appoints a majority of an organization's governing board and is able to impose its will on that organization. Financial accountability may also be deemed to exist if there is a potential for the organization to provide financial benefits to, or impose financial burdens on, the primary government/component unit. On this basis, no governmental organization other than the Authority itself is included in the financial reporting entity.

As of December 31, 2013, the Authority has a liability to the County in the amount of \$391,221 for past and current operating loans. Under GASB Statements No. 14 and 61, this is considered to be a financial burden on the County; also the County can impose its will on the Authority through the appointment of the members of the Board of Directors. Therefore, the Authority is a component unit of the County whose financial statements are discretely presented in the County's financial statements.

B. Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred. Other than the Agency fund transactions, all transactions are accounted for in a single enterprise fund. Enterprise funds are used to account for business-like activities. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The Fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the Authority under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the Authority's own programs. The Authority does not have trust funds. The agency fund accounts for grant revenue, loan proceeds, and intergovernmental revenue collections that are distributed to the Lorain County Land Reutilization Corp. The Authority's agency fund is custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

C. Budgetary Process

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

D. Cash, Cash Equivalents and Investments

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

E. Capital Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. Buildings and building improvements are depreciated using the straight-line method for a period of 50 years. Machinery and Equipment with a value of \$15,000 or more are depreciated using the straight-line method over 15 years.

F. Net Position

Net Investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted resources are applied first when an expense is incurred for both restricted and unrestricted assets.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activities. For the Authority, these revenues are primarily charges for services, donations, rental income, and CVB-other monthly fees. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the Authority. Revenues and expenses not meeting those definitions are reported as non-operating.

H. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets or from outside contributions of resources restricted to capital acquisition and construction. The Authority had no capital contributions during 2013.

I. Estimates

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

**LORAIN COUNTY PORT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

2. RESTATEMENT OF FUND BALANCE

The reclassification of Depreciable Capital Assets-Building to Non-depreciable Assets-Land at the beginning of 2013 had the following effect on net position as it was previously reported:

Restatement of Net Position:	
Net Position, December 31, 2012	\$4,323,405
Reclassification	27,799
Restated Net Position, December 31, 2012	\$4,351,204

3. DEPOSITS AND INVESTMENTS

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

Custodial credit risk is the risk that, in the event of bank failure, the Authority’s deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105 percent of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as collateral against all of the uninsured public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority. The Authority does not have a policy for custodial credit risk.

Deposits - At December 31, 2013, the bank balance of the Authority’s deposits was \$511,013. Based on the criteria described in GASB Statement No. 40, “Deposits and Investment Risk Disclosures”, as of December 31, 2013, \$261,013 of the Authority’s bank balance of \$511,013 was exposed to custodial credit risk as discussed above, while \$250,000 was covered by Federal Deposit Insurance Corporation.

Investments

As of December 31, 2013, the Authority had the following investments and maturities:

Investment Type	Fair Value	Investment Maturity Less Than One Year
First American Government Obligation Fund	\$2,512,668	\$2,512,668

Interest Rate Risk: The Ohio Revised Code generally limits security purchases to those that mature within five years of the settlement date. The Authority has no policy regarding interest rate risk.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments had the following ratings by Standard & Poor’s. The Authority has no policy regarding credit risk.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

First American Government Obligation Fund

AAAm

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk.

Concentration of Credit Risk: Concentration of credit risk is the possibility of loss attributed to the magnitude of the Authority's investment in a single issuer. One hundred percent of the Authority's investments are in First American Government Obligation Fund. The Authority's policy places no limit on the amount that may be invested in any one issuer. The Authority has no policy regarding concentration of credit risk.

4. RISK MANAGEMENT

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

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

5. BOND FUND PROGRAM

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

The State of Ohio Department of Development (ODOD) awarded the Authority a grant of \$1,000,000, received in April 2003, which was deposited into the Bond Fund Program Reserve account. The conditional grant from ODOD is for 20 years, with the interest earned on the fund remitted back to ODOD through December 2012. Beginning 2013 and continuing through December 2023, 50 percent of the interest earned is required to be remitted back to ODOD. In December 2001, the Authority received a \$1,500,000 grant from Lorain County for the Bond Fund Program, which was also deposited into the Bond Fund Program Reserve account.

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

The amounts held in the Authority's Bond Fund Program Reserves were \$2,512,668 at December 31, 2013 and are reflected in the Statement of Net Position.

LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013

6. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	<u>Balance</u> <u>12/31/2012</u>	<u>Restatements</u> <u>01/01/2013</u>	<u>Balance</u> <u>01/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2013</u>
Capital Assets, Not Being Depreciated:						
Land	\$0	\$350,482	\$350,482	\$0	\$0	\$350,482
Total Capital Assets, Not Being Depreciated	<u>0</u>	<u>350,482</u>	<u>350,482</u>	<u>0</u>	<u>0</u>	<u>350,482</u>
Capital Assets, Being Depreciated:						
Buildings	1,592,000	(350,482)	1,241,518	0	0	1,241,518
Building Improvements	313,782	0	313,782	3,750	0	317,532
Vehicle	0	0	0	31,789	0	31,789
Total Capital Assets, Being Depreciated	<u>1,905,782</u>	<u>(350,482)</u>	<u>1,555,300</u>	<u>35,539</u>	<u>0</u>	<u>1,590,839</u>
Less Accumulated Depreciation:						
Buildings	(125,816)	27,799	(98,017)	(24,830)	0	(122,847)
Building Improvements	(13,802)	0	(13,802)	(6,288)	0	(20,090)
Vehicle	0	0	0	(3,179)	0	(3,179)
Total Accumulated Depreciation	<u>(139,618)</u>	<u>27,799</u>	<u>(111,819)</u>	<u>(34,297)</u>	<u>0</u>	<u>(146,116)</u>
Total Capital Assets, Being Depreciated, net	<u>1,766,164</u>	<u>(322,683)</u>	<u>1,443,481</u>	<u>1,242</u>	<u>0</u>	<u>1,444,723</u>
Total Capital Assets, net	<u>\$1,766,164</u>	<u>\$27,799</u>	<u>\$1,793,963</u>	<u>\$1,242</u>	<u>\$0</u>	<u>\$1,795,205</u>

7. CAPITAL LEASES

The Authority entered into a lease agreement for a maintenance truck in 2013. This lease meets the criteria of a capital lease as defined by GASB 62. Accordingly, this lease has been recorded at the present value of its future minimum lease payments, as of the inception date.

	<u>Year Ending</u> <u>December 31,</u>	<u>Vehicles</u>
	2014	\$11,751
	2015	11,750
	2016	7,834
Total minimum lease payments		<u>31,335</u>
Less: Amount representing interest		<u>(2,766)</u>
Present value of net minimum lease payments		<u>\$28,569</u>

8. RELATED PARTY ACTIVITY

The County has assigned the following staff to the operation of the Authority, under contract, and will - at its option, request reimbursement periodically from the Authority: Patrick J. Metzger, Director.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

9. LETTER OF CREDIT

On June 27, 2008, the Authority entered into an agreement to increase their Letter of Credit with Lorain National Bank from three million dollars to eight million dollars. The purpose of the Letter of Credit is to supplement the reserves available in the Program Reserve Fund and enable the Authority to issue additional series of bonds under the indenture to finance costs of projects and promote the creation and preservation of jobs and employment opportunities within the County. Due to market conditions and with the intent to enhance the marketability and rating on a bond financed expansion project, the Authority supplemented the existing Letter of Credit with an additional wrapping Letter of Credit with the Federal Home Loan Bank of Cincinnati (FHLB). However, market conditions at that time dictated that the firm pull out of the project. As of December 31, 2013, the Authority has not used the LNB Letter of Credit or the supplemental FHLB Letter of Credit. The Authority has maintained the enhancements with the goal to attract a partnership with another Port Authority, or to attract suitable business attraction/expansion to meet the LCPA core mission of economic development in Lorain County.

10. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

All employees of the Authority participate in the Ohio Public Employees Retirement System (OPERS), which administers three separate pension plans as described below:

1. The Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan.
2. The Member-Directed Plan– a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the Member-Directed Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings.
3. The Combined Plan – a cost-sharing multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the Traditional Pension 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.

The OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or (800) 222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2013, member and employer contribution rates were consistent across all three plans. While members in the state and local division may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
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The 2013 member contributions rates were 10.00% for members in state and local classifications. Public safety and law enforcement members contributed 12.00% and 12.60% respectively. Effective January 1, 2014, the member contribution rates for public safety and law enforcement members increased to 12.00% and 13.00% respectively.

The 2013 employer contribution rate for state and local employers was 14.00% of covered payroll. The law enforcement and public safety division employer contribution rate was 18.10% of covered payroll.

The Authority's contributions for pension obligations to OPERS for the year ending December 31, 2013, the first year for contributions, were \$2,242. 81.98% has been contributed for 2013.

11. POST EMPLOYMENT BENEFITS

A. Public Employees Retirement System

Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the Traditional Pension Plan – a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program and Medicare Part B premium reimbursement, to qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for postretirement health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to OPERS at 277 East Town Street, Columbus, OH 43215-4642 or calling 614-222-5601 or 1-800-222-7377.

The Ohio Revised Code provides the statutory authority requiring public employers to fund post retirement health care through their contributions to OPERS. A portion of each employer's contribution to the OPERS is set aside for the funding of post-retirement health care coverage.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.00% of covered payroll, and public safety and law enforcement employers contributed at 18.10%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

**LORAIN COUNTY PORT AUTHORITY
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2013**

OPERS' Post Employment Health Care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding post employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 1.0% during calendar year 2013. The portion of employer contributions allocated to health care for members in the Combined Plan was 1.0% during calendar year 2013. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommend by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Authority's actual contributions for 2013, the first year for contributions, which were used to fund post-employment benefits, were \$172, which were 81.98% of required contributions.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

12. CONDUIT DEBT

The Authority has issued revenue bonds and certificates of participation to provide financial assistance to governmental and non-profit entities for the acquisition and construction of facilities deemed to be in the public interest. The Authority is not obligated in any manner for repayment of the bonds or certificates of participation. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt also produces additional revenues for the Authority.

As of December 31, 2013, revenue bonds were outstanding from the Authority's Program Bond fund with an original issue amount of \$2,365,000 of which \$1,500,000 remain outstanding as of December 31, 2013. However, the Authority's total remaining reserve dollars from the Letter of Credit are \$6,450,000 or approximately 300.0% of the outstanding bonds.

In August 2013, the Authority issued revenue bond anticipation notes to repay year 2012 BANs and provide ongoing match funds to Lorain County Land Reutilization Corp. that support the costs of match funds for demolition grant programs that aid in reclamation, rehabilitation, and reutilization of vacant, abandoned, tax-foreclosed, or other such real property within Lorain County which is the mission of the LCLRC. The various state programs are reimbursement based and require expenditure first, reimbursement requests later. The Authority is not obligated in any manner for repayment of the notes. However, a liability equal to the conduit debt along with a corresponding receivable from the benefitting third party responsible for its ultimate repayment are reported in the accompanying financial statements. The issuance of such conduit debt is an authorized purpose of the Port Authority under O.R.C. and drives local economic development. The aforementioned issuance of conduit debt does not produce additional revenues for the Authority beyond a nominal issuance fee.

As of December 31, 2013, the conduit debt-revenue bond anticipation notes were outstanding with an original issue amount of \$2,700,000 all of which remains outstanding as of December 31, 2013.

**LORAIN COUNTY PORT AUTHORITY
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

13. MANAGEMENT AGREEMENT

Effective May 25, 2012, the Authority entered into a three year Management Agreement with Lorain County Land Reutilization Corp (LCLRC). The Agreement’s term will renew for additional, successive one (1) year periods in perpetuity upon mutual consent of the parties. The Authority shall serve as the Management Company and shall assist the LCLRC in the administration and execution of the Agreement and Plan entered into with the Lorain Board of County Commissioners, Lorain County, Ohio. The Authority shall act as the executive of the LCLRC and will act under the direction of the LCLRC as established by the LCLRC Board through its Code of Regulation, other policies, and specific direction. The management fee for the Authority’s services is 3% of the delinquent tax and assessment collection monies received by LCLRC annually.

14. SUBSEQUENT EVENTS

Subsequent events were evaluated by management through June 26, 2014, the date the financial statements were available to be issued.

15. CONTINGENT LIABILITY

On September 16, 2013, a summary judgment was granted against the Authority pertaining to a shared revenue agreement with the Lorain Port Authority. Damages were awarded in the amount of \$37,500, which is accrued as a judgment payable. The authority is appealing the judgment.

16. LOAN PAYABLE

Loan Payable – County represents the cumulative operating costs incurred by the Authority that have been paid by Lorain County. There is no repayment schedule. At December 31, 2013, the outstanding balance was \$391,221.

Loan payable activity for the year ended December 31, 2013, was as follows:

	Balance <u>01/01/2013</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/2013</u>
Loan Payable	\$391,221	\$5,671	(\$5,671)	\$391,221

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

Lorain County Port Authority
Lorain County
226 Middle Avenue
Elyria, Ohio 44035

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities and the aggregate remaining fund information of the Lorain County Port Authority, Lorain County, Ohio (the Authority), a component unit of Lorain County, Ohio as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 26, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the 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, opining 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 an instance of noncompliance or other matters we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2013-001.

Entity's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Authority's response and, accordingly, we express no opinion on it.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

June 26, 2014

**LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2013**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2013-001

Material Noncompliance – Investment Policy

Ohio Rev. Code §135.14(O)(1) states, except as otherwise provided in divisions (O)(2) and (3) of this section, no treasurer or governing board shall make an investment or deposit under this section, unless there is on file with the Auditor of State a written investment policy approved by the treasurer or governing board. The policy shall require that all entities conducting investment business with the treasurer or governing board shall sign the investment policy of that subdivision. All brokers, dealers, and financial institutions, described in division (M)(1) of this section, initiating transactions with the treasurer or governing board by giving advice or making investment recommendations shall sign the treasurer's or governing board's investment policy thereby acknowledging their agreement to abide by the policy's contents. All brokers, dealers, and financial institutions, described in division (M)(1) of this section, executing transactions initiated by the treasurer or governing board, having read the policy's contents, shall sign the investment policy thereby acknowledging their comprehension and receipt.

The Authority does not have a written Board approved investment policy and therefore does not have an investment policy filed with the Auditor of State representing the Authority's investing practices (i.e., allowance of commercial papers, banker acceptances, etc.). Failure to have a written, Board approved, investment policy filed with the Auditor of State is a violation of the law. Further, any investments entered into by the Authority without the proper requirements met, could be deemed an unallowable investment by the Auditor of State.

We recommend the Authority create an investment policy before making investments according to the Ohio Revised Code and file it with the Auditor of State to maintain compliance with the law over investments.

Officials' Response:

While the LCPA has relied upon the structure of trust documentation that governs the investment of LCPA funds through our agent US Bank – which must adhere to legal handling of LCPA dollars it manages per Ohio Revised Code, the LCPA would agree that in order to fully meet compliance under R.C. Sec. 135.14(O)(1) it must adopt and create a policy document approved by its board and maintain the guidelines outlined in that section of the law. The LCPA will remedy this situation at its next possible opportunity.

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LORAIN COUNTY PORT AUTHORITY
LORAIN COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2012-01	Investment Requirements – Material Noncompliance	No	Not Corrected; repeated as Finding 2013-001

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LORAIN COUNTY PORT AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JULY 8, 2014