



# Balestra, Harr & Scherer, CPAs, Inc.

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Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2011  
Fiscal Year Audited Under GAGAS: 2011





# Dave Yost • Auditor of State

Board of Directors  
West Central Ohio Port Authority  
3130 East Main Street, Suite 2B  
Springfield, Ohio 45505

We have reviewed the *Independent Auditor's Report* of the West Central Ohio Port Authority, Clark County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period January 1, 2011 through December 31, 2011. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

October 11, 2012

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WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY

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# Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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## Independent Auditor's Report

West Central Ohio Port Authority  
Clark County  
Springview Government Center  
3130 East Main Street, Suite 2B  
Springfield, Ohio 45505

To the Board of Directors:


We have audited the accompanying financial statements of the business-type activities of the West Central Ohio Port Authority, Clark County, (the Authority) as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the 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 West Central Ohio Port Authority, Clark County, Ohio, as of December 31, 2011, 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 June 15, 2012 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. 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.

Accounting principles generally accepted in the United States of America require this presentation to include Management's discussion and analysis, as 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.



Balestra, Harr & Scherer, CPAs, Inc.  
June 15, 2012



**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)

The discussion and analysis of West Central Ohio Port Authority (the Port Authority) financial performance provides an overall review of the financial activities for the year ended December 31, 2011. Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

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

### **Financial Highlights**

Key financial highlights for 2011 are as follows:

- Total net assets increased by \$126,348 in 2011 primarily due to a \$226,335 railroad maintenance tax credits revenues earned from three shippers during 2011 and \$27,525 revenues from salvage proceeds. The increase was offset in part by \$47,086 net operating loss as discussed below, \$58,283 contribution towards IORY/Fayne track rehabilitation project and \$24,550 interest expenses.
- Total assets increased by \$138,376 which represents a 1.05 percent increase from the prior year. The increase was primarily due to \$431,628 increase in cash and cash equivalents and \$138,866 increase in accounts receivable. The increase was offset by \$398,639 decrease in capital assets, net of current year depreciation and organizational costs, and \$33,479 decrease in grants receivable. The Port Authority's cash and cash equivalents increased primarily due to decreased expenditures for capital repairs and replacements. Grants receivable represents the remaining portion of the ARRA grant yet to be received. A significant portion of accounts receivable is due from shippers for track maintenance fees and railroad maintenance tax credits.
- Total liabilities increased by \$12,028 resulting from a \$207,299 increase in accounts payable due to timing of payments for capital projects completed near year-end, offset by \$188,149 principal payments on the existing debt and \$6,175 decrease in deferred revenues.
- The net operating loss reported of \$47,086 for 2011 is a decrease of \$342,834 from the operating income of \$295,748 for 2010, primarily due to a decrease in operating revenues of \$293,937 and an increase in operating expenses of \$64,030. The decrease in operating revenues was primarily due to a decrease in maintenance fee and trackage use fees resulting from a 27 percent decrease in carloads served during 2011. The increase in operating expenses is primarily due to increases from depreciation expense of \$18,582, repairs and maintenance expenses of \$16,770, administration services contracted through Clark County TCC of \$12,939, bad debt expense of \$10,155, and nuisance abatement of \$6,400 during 2011.

### **Using this Financial Report**

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

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)

**Statement of Net Assets**

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

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

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

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

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

Table 1 provides a summary of the Port Authority's net assets for 2011 compared with 2010.

**Table 1  
Net Assets**

	2011	Restated 2010
<b>Assets:</b>		
Current and other assets	\$ 1,906,165	1,369,150
Capital assets, net	11,449,201	11,847,840
Total Assets	13,355,366	13,216,990
<b>Liabilities:</b>		
Current liabilities	542,586	338,250
Non-current liabilities	596,136	788,444
Total Liabilities	1,138,722	1,126,694
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	10,645,547	10,855,225
Unrestricted	1,571,097	1,235,071
Total Net Assets	\$ 12,216,644	12,090,296

Total net assets of the Port Authority increased by \$126,348 in 2011 or 1.05 percent. The increase in total net assets from 2010 was due to \$226,335 railroad maintenance tax credits revenues earned from three shippers during 2011 and \$27,525 revenues from salvage proceeds. The increase was offset in part by \$47,086 net operating loss due to a decrease in maintenance fee and trackage use fees resulting from a 27 percent decrease in carloads served during 2011.

As noted in Table 1 above, the unrestricted net assets as of December 31, 2011 increased by \$336,026. The net assets invested in capital assets, net of related debt decreased by \$209,678 resulting from current year capital asset acquisition in the amount of \$148,844, offset by current year disposal of \$1,378 and depreciation of \$545,293, and repayment of \$188,149 debt used to acquire capital assets.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)

Table 2 shows the changes in net assets for the year ended December 31, 2011, as well as revenue and expense comparisons to 2010.

**Table 2  
Changes in Net Assets**

	<u>2011</u>	<u>Restated 2010</u>
Operating Revenues:		
Use and Trackage Fees - Operations	\$ 271,611	295,123
Lease Receipts - Property	56,167	57,964
Maintenance Fees	403,833	673,236
Document Fees	2,925	2,150
Non-Operating Revenues:		
Other Non-Operating Revenues	27,525	8,008
Tax Credit Proceeds	226,335	-
Gain on sale of assets	1,988	-
Interest income	419	414
Total Revenues	<u>990,803</u>	<u>1,036,895</u>
Operating Expenses:		
Legal Fees	15,775	17,673
Real Estate Service	3,687	5,017
Bookkeeping Service	9,000	9,000
Accounting Service	13,000	13,000
Administration - Clark County TCC	81,105	68,166
Planning - Clark County TCC	5,000	2,500
Taxes, Licenses and Fees	31,318	30,935
Insurance - Bond	364	364
State Audit	8,360	5,718
Amortization of Organizational Costs	812	812
Depreciation	545,293	526,711
Nuisance & Abatement	6,400	-
Repairs and Maintenance	50,755	33,985
Bad debt	10,155	-
Miscellaneous Expense	598	3,651
Non-Operating Expenses:		
Fayne project contribution	58,283	-
Interest Expense	24,550	20,542
Total Expenses	<u>864,455</u>	<u>738,134</u>
Excess (Loss) Before Contributions	126,348	298,761
Capital Contributions	<u>-</u>	<u>1,000,000</u>
Change in Net Assets	126,348	1,298,761
Net Assets at the Beginning of Year, Restated	<u>12,090,296</u>	<u>10,791,535</u>
Net Assets at the End of Year	<u>\$ 12,216,644</u>	<u>\$ 12,090,296</u>

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)

The decrease in use fees was due to a decrease in the number of carloads transported during the year – 5,505 railcars served in 2011 compared to 7,591 railcars in 2010. Effective January 1, 2011, the Port Authority entered into an agreement to contribute \$200,000 to Indiana & Ohio Railway Company for the rehabilitation project. The contribution is funded through a reduction in trackage rights fee by \$3.68 per railcar until the \$200,000 contribution commitment is met. \$58,283 was contributed during 2011 towards this commitment. Despite the reduced rate, the overall trackage rights fees increased \$21,855, net of the \$58,283 contribution based on an increase in “overhead” traffic being routed onto the Port Authority’s tracks during 2011. The maintenance fees decreased by \$269,403 as a result of a 27 percent decrease in railcars transported during 2011. Lease receipts and other operating revenues decreased by \$1,022. During 2011, the Port Authority earned \$226,335 from assignment of Section 42G Railroad Maintenance Tax Credits to two shippers and to Indiana & Ohio Railway Company, none was sold during 2010. Also contributing to the increase in other non-operating revenue in 2011 was \$27,525 in salvage proceeds compared to \$8,008 in 2010.

Total expenses of the Port Authority reported for the year were \$126,321 higher than those reported for the previous year. The following factors contributed to this increase in 2011: depreciation increased by \$18,582, repairs and maintenance increased by \$16,770, administration services contracted through Clark County TCC of \$12,939, bad debt expense increased by \$10,155, and nuisance abatement expenses increased by \$6,400. The \$58,283 contribution for Fayne rehabilitation project, described above, was reported as non-operating expenses in 2011.

**Capital Assets**

At December 31, 2011 capital assets of the Port Authority were \$17,007,997 off-set by \$5,574,007 in accumulated depreciation resulting in net capital assets of \$11,433,990. Table 3 shows the categories of capital assets maintained by the Port Authority, net of accumulated depreciation, at December 31, 2011 and 2010.

**Table 3  
Capital Assets, Net of Depreciation**

	<u>2011</u>	<u>2010</u>
Land	\$ 1,238,582	1,239,960
Equipment and Appendices	2,399,947	2,399,947
Spur	207,951	207,951
Railroad	<u>13,161,517</u>	<u>13,012,673</u>
Total capital assets	17,007,997	16,860,531
Less accumulated depreciation	<u>(5,574,007)</u>	<u>(5,028,714)</u>
Totals	<u>\$ 11,433,990</u>	<u>11,831,817</u>

The \$147,466 increase in total capital assets was due to the replacement of ties in South Charleston, Ohio totaling \$148,844 offset by the sale of land totaling \$1,378. Depreciation expense for 2011 and 2010 were \$545,293 and \$526,711, respectively.

See Note 5 of the notes to the basic financial statements for more detailed information on the Port Authority’s capital assets.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011  
(Unaudited)

**Debt**

At December 31, 2011, the debt obligations of the Port Authority consisted of four outstanding loan obligations, one with the Ohio Department of Transportation (State Infrastructure Bank) and three with Ohio Rail Development Commission. The outstanding balance of four loans as of December 31, 2011 totaled \$788,443, of which \$192,307 is due within one year. See Note 8 to the basic financial statements for additional details.

**Contacting the Port Authority**

This financial report is designed to provide a general overview of the finances of the West Central Ohio Port Authority and to show the Port Authority's accountability for the monies it receives to all vested and interested parties, as well as meeting the annual reporting requirements of the State of Ohio. Any questions about the information contained within this report or requests for additional financial information should be directed to: West Central Ohio Port Authority, Springview Government Center, 3130 East Main Street, Suite 2B, Springfield, Ohio 45505.

**WEST CENTRAL OHIO PORT AUTHORITY**  
**CLARK COUNTY**  
STATEMENT OF NET ASSETS  
December 31, 2011

**Assets:**

**Current assets:**

Cash and Cash Equivalents	\$	1,163,886
Accounts Receivable		463,623
Grants Receivable		<u>278,656</u>
Total current assets		<u>1,906,165</u>

**Non-current assets:**

Nondepreciable Capital Assets		1,238,582
Depreciable Capital Assets, Net		10,195,408
Organizational Costs		<u>15,211</u>
Total non-current assets		<u>11,449,201</u>
Total Assets		<u>13,355,366</u>

**Liabilities:**

**Current liabilities:**

Accounts Payable		222,366
Accrued Real Estate Taxes		93,678
Deferred Revenue		31,508
ORDC Loan Payable, current portion		138,013
ODOT State Infrastructure Bank Loans Payable, current portion		54,294
Accrued Interest Payable		<u>2,727</u>
Total current liabilities		<u>542,586</u>

**Non-current liabilities:**

ORDC Loan Payable, less current portion		423,207
ODOT State Infrastructure Bank Loans Payable, less current portion		<u>172,929</u>
Total non-current liabilities		<u>596,136</u>
Total Liabilities		<u>1,138,722</u>

**Net Assets:**

Invested in capital assets, net of related debt		10,645,547
Unrestricted		<u>1,571,097</u>
Total net assets	\$	<u>12,216,644</u>

**WEST CENTRAL OHIO PORT AUTHORITY**  
**CLARK COUNTY**  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Operating Revenues:**

Use and Trackage Fees - Operations	\$	271,611
Lease Receipts - Property		56,167
Maintenance Fees		403,833
Document Fees		2,925
Total Operating Revenues		<u>734,536</u>

**Operating Expenses:**

Legal Fees - General Counsel		5,454
Legal Fees - Special Counsel		10,321
Real Estate Service		3,687
Bookkeeping Service		9,000
Accounting Service		13,000
Administration - Clark County TCC		81,105
Planning - Clark County TCC		5,000
Taxes, Licenses and Fees		31,318
Insurance - Bond		364
State Audit		8,360
Amortization of Organizational Costs		812
Depreciation		545,293
Nuisance & Abatement		6,400
Repairs and Maintenance		50,755
Bad Debts		10,155
Miscellaneous Expense		598
Total Operating Expenses		<u>781,622</u>

Operating Loss (47,086)

**Non-Operating Revenue (Expenses)**

Interest Income		419
Tax Credit Proceeds		226,335
Gain on sale of assets		1,988
Other Income		27,525
Fayne project contribution		(58,283)
Interest Expense		(24,550)
Total Non-Operating Revenue (Expenses)		<u>173,434</u>

Net loss before contributions 126,348

Change in net assets 126,348

Net Assets at the Beginning of Year, Restated. See Note 11 12,090,296

Net Assets at the End of Year \$ 12,216,644

**WEST CENTRAL OHIO PORT AUTHORITY**  
**CLARK COUNTY**  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2011

**Cash Flow From Operating Activities:**

Cash received from customers	\$ 844,550
Cash payments to suppliers for goods and services	(199,942)
Other operating revenue	2,925
	<u>647,533</u>
Net Cash Provided by Operating Activities	<u>647,533</u>

**Cash Flows From Noncapital Financing Activities:**

Interest Income	419
Other non-operating revenue	27,525
Fayne project contribution	(58,283)
	<u>(30,339)</u>
Net Cash Used in Noncapital Financing Activities	<u>(30,339)</u>

**Cash Flow from Capital and Related Financing Activities:**

Capital acquisitions	(9,623)
Sale of property	3,366
Principal paid on ODOT Loans	(52,702)
Principal paid on ORDC Loans	(135,447)
Change in accrued Interest on ODOT Loans	(89)
Grants and capital contributions received	33,479
Interest paid on Loans	(24,550)
	<u>(185,566)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(185,566)</u>

Net Change in Cash and Cash Equivalents	431,628
Cash and Cash Equivalents at the Beginning of Year	<u>732,258</u>
Cash and Cash Equivalents at the End of Year	<u>\$ 1,163,886</u>

**RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (47,086)
Adjustments to reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Amortization Expense	812
Depreciation Expense	545,293
Change in Receivables	87,469
Change in Deferred Revenue	(6,175)
Change in Accrued Real Estate Taxes	(858)
Change in Accounts Payables	68,078
	<u>694,619</u>
Total Adjustments	<u>694,619</u>
Net Cash Provided by Operating Activities	<u>\$ 647,533</u>

See accompanying notes to the basic financial statements.



**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**1. DESCRIPTION OF THE REPORTING ENTITY**

The West Central Ohio Port Authority is a governmental subdivision established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

On February 27, 1990, the Clark County Commission entered into an agreement to become part of a jointly governed organization with the Fayette County Commission for the purpose of purchasing and operating 27.13 miles of railroad between South Charleston, Ohio, in Clark County and Washington Court House, Ohio, in Fayette County. The purpose of forming the jointly governed organization was to protect the economic security of the agricultural community in southeastern Clark County by outright purchase of railway over which to transport grain and other commodities to market outlets. In accordance with the Ohio Revised Code, 4582.20.1, the Port Authority was established and named the Clark County – Fayette County Port Authority.

On August 16, 1993, the Clark County – Fayette County Port Authority signed an agreement of Joinder with Champaign County. The purpose of the agreement was to extend the territorial limits of the Port Authority in order to purchase two additional rail segments. The first segment runs between Springfield, Ohio, in Clark County and Bellefontaine, Ohio, in Logan County. The second segment runs between Springfield, Ohio, and Mechanicsburg, Ohio, in Champaign County. Because of the territorial change, the name of the organization was changed from the Clark County – Fayette County Port Authority to the West Central Ohio Port Authority.

The Port Authority is governed by a board of directors, two of whom are appointed by the commissioners of Champaign County, two of whom are appointed by the commissioners of Clark County, two by the commissioners of Fayette County and one by a majority action of the three counties. The Port Authority provides the services which are defined by Chapter 4582 of the Ohio Revised Code and which services include but are not limited to the power to purchase, construct, re-construct, enlarge, improve, equip, develop, sell, exchange, lease, convey other interest in, and operate Port Authority facilities.

The Commissioners of Clark, Fayette and Champaign Counties have no authority regarding the day-to-day activities and business affairs of the Port Authority beyond the creation of the Port Authority and the appointment of its directors. All counties maintain their own accounting functions, are separate reporting entities, and their financial activities are not included within the financial statements of the Port Authority.

The general office of the Port Authority is located in the Springfield Township and within the Clark-Shawnee School District. These entities maintain their own accounting functions, are separate reporting entities, and their financial activities are not included within the financial statements of the Port Authority.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**A. Basis of Presentation**

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

**B. Measurement Focus and Basis of Accounting**

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

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

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

**C. Budgetary Data**

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

**D. Cash and Cash Equivalents**

The Port Authority maintains a cash management program whereby cash is deposited with a banking institution in Clark County. The agreements restrict activity to certain deposits. These deposits are stated at cost which approximates market value. Investment procedures are restricted by the provisions of the Ohio Revised Code.

**E. Accounts Receivable**

Receivables recorded on the Port Authority's financial statements are recorded to the extent that the amounts are determined material and substantiated not only by supporting documentation but also, by a reasonable, systematic method of determining their existence, completeness, valuation and collectability. Receivables at December 31, 2011 consisted of rent or lease account billings, maintenance fees, use and trackage rights, and railroad maintenance tax credits. All receivables are considered collectible in full.

**F. Grants Receivable**

Grants receivable represents amounts due from federal and state agencies for the various projects administered by the Port Authority. The receivable includes amounts due on projects closed-out as of December 31, 2011.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**G. Capital Assets and Depreciation**

Property, plant and equipment are recorded at either historical cost for capital assets acquired by the Port Authority or estimated fair market value for donated capital assets and are depreciated using the straight-line method over the useful life of the assets as follows:

Signals and equipment	14 Years
Track	30 Years
Office Equipment	10 Years

**H. Capitalization of Interest**

The Port Authority's policy is to capitalize net interest on construction projects until substantial completion of the project. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2011, the Port Authority incurred no interest which was capitalized.

**I. Organizational Costs**

Organization costs were capitalized when the Port Authority was originally formed in 1990. Costs are amortized using the straight-line method over a 40 year period.

**J. Operating and non-operating revenues and expenses**

Operating revenues are those revenues that are generated directly at the Port Authority's primary mission. For the Port Authority, operating revenues include railroad track use and trackage fees, property lease income, railroad maintenance fees and related market and document fees. Operating expenses are necessary costs incurred to support the Port Authority's primary mission, including depreciation.

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

**K. Net Assets**

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

**L. Capital Contributions**

Capital contributions arise from outside contributions of capital assets or outside contributions of resources restricted to capital acquisition and construction. The Port Authority had no capital contributions during 2011.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)

**M. Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. DEPOSITS AND INVESTMENTS**

Ohio Law requires the classification of funds held by the Port Authority into three categories:

Active funds are those funds required to be kept in "cash" or "near cash" status for immediate use by the Port Authority. Such funds must be maintained either as cash in the Port Authority Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Inactive funds are those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Interim funds are those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Interim deposits in eligible institutions apply for interim funds;
5. Bonds and other obligations of the State of Ohio;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
7. The State Treasurer's investment pool (STAR Ohio).

Protection of Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) by eligible securities pledged by the financial institution as security for repayment, but surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2011  
(Continued)

As of December 31, 2011, the carrying amount of the Port Authority's deposits totaled \$1,163,886 and its bank balance was \$1,164,636. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of December 31, 2011, \$914,636 was exposed to custodial risk as discussed below, while \$250,000 was covered by the Federal Depository Insurance Corporation.

Custodial credit risk is the risk that in the event of bank failure, the Port Authority will not be able to recover the deposits. All deposits are collateralized with eligible securities in amounts equal to at least 105% 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 the Federal Reserve Banks or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the Authority.

**4. USE AND LEASE RECEIPTS**

Use and lease receipts are amounts received by the Port Authority for lease of railroad tracks. Amounts due at December 31, but uncollected, are recorded as revenue.

The Port Authority entered into an agreement with the Indiana & Ohio Railroad, Inc. (IORY) to contribute \$200,000 towards a track rehabilitation project at Fayne during 2010. The property is owned by IORY. As per the agreement, the Port Authority agreed to contribute \$3.68 out of the \$8.68 per carload trackage rights fee earned until the total \$200,000 is contributed. The 2011 contribution, totaling \$58,283, is reported as Fayne project contribution on the statement of revenues, expenses and changes in net assets.

**5. CAPITAL ASSETS**

A summary of the property, plant and equipment purchased as of December 31, 2011, follows. These assets are substantially leased to a third party:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 1,239,960	-	1,378	1,238,582
Capital assets being depreciated:				
Equipment and Appendices	2,399,947	-	-	2,399,947
Spur	207,951	-	-	207,951
Railroad	13,012,673	148,844	-	13,161,517
	<u>15,620,571</u>	<u>148,844</u>	-	<u>15,769,415</u>
Less Accumulated Depreciation on:				
Equipment and Appendices	(1,311,096)	(107,898)	-	(1,418,994)
Spur	(166,103)	(3,639)	-	(169,742)
Railroad	(3,551,515)	(433,756)	-	(3,985,271)
	<u>(5,028,714)</u>	<u>(545,293)</u>	-	<u>(5,574,007)</u>
Capital assets, net	<u>\$ 11,831,817</u>	<u>(396,449)</u>	1,378	<u>11,433,990</u>

**WEST CENTRAL OHIO PORT AUTHORITY  
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NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

**6 SHORTLINE RAILROAD AGREEMENT**

The Port Authority entered into a Shortline railroad operating agreement with the Indiana & Ohio Railroad, Inc., (IORY) on September 4, 1990, for operation as a shortline carrier. In light of current and ongoing operation and ownership of the Shortline, both parties entered into a revised and updated 2005 Agreement during 2006, terms of which went in effect retro-active as of May 1, 2005. The 2005 Agreement continues in effect until December 31, 2090, unless sooner terminated, and specifies that an additional 99 year term will be granted at the end of the initial term.

The 2005 Agreement permits (a) the Port Authority to terminate this Agreement: (i) upon an arbitration board determining that IORY has not performed services that would reasonably be expected of a similar carrier given the circumstances such termination to be effective as specified in a written notice provided by WESTCO PA to IORY; (ii) Upon the failure of IORY for a period of 90 days after the due date to pay any applicable Use and/or Trackage Fee and/or (b) IORY shall have the right to terminate this Agreement in the event that overhead traffic and online customer revenue base do not provide sufficient monetary return over and above associated expenses. Termination by IORY is to be effective 120 days after written notice by IORY to WESTCO PA.

In accordance with the 2005 Agreement, IORY is required to perform at its own expense all routine maintenance on the Shortline up to the limits specified in the agreement and maintain the Shortline at not less than Federal Railroad Administration Class II track standards ("Class II Condition"). Any damage to the Shortline, other than normal wear, that occurs as a result of IORY operations shall be repaired at IORY's expense. The Port Authority is solely responsible for any extraordinary maintenance or capital improvements required to maintain the line to its current Class II condition.

The 2005 Agreement states that a use fee for any cars originating or terminating on the Shortline will be paid within thirty days after the close of the calendar quarter by the IORY to the Port Authority.

The 2005 Agreement also states that for use of Trackage by IORY or any other railroad authorized in writing by IORY and WESTCO PA for overhead (bridge) traffic, not originating or terminating on the Shortline, between Springfield (MP 202.7) and Fayne (MP 229.83), a distance of 27.13 miles, IORY shall pay directly to WESTCO PA, for each car (empty or loaded), locomotive and caboose handled by IORY over the Trackage pursuant to this Agreement. For purposes of computing the fee, locomotives shall be counted as two cars. Trackage fee payments will be paid on a monthly basis on or before thirty (30) days after the close of the month in which the applicable Trackage Fees accrue.

The agreement restricts the use of both the use and trackage fees solely for extraordinary maintenance and/or capital expenditures directly related to rail infrastructure and freight operations over the Shortline Property.

The Port Authority is entitled to all revenue from rents, leases, and licenses that are derived from ownership of the real property, and related improvements. The Port Authority is responsible for any interest and principal payments which may be associated with its ownership.

The IORY is entitled to revenues derived from its operation of the Shortline, including switching fees, per diem and demurrage and other accessorial charges per IORY 8000 and 6001 series tariffs. IORY is responsible for all freight rail expenses associated with operation of the Shortline including the maintenance liability insurance coverage with benefits not less than \$5 million. The Port Authority is named as an additional insured on the policy.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
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(Continued)

Both parties agree to indemnify and hold harmless each other, its agents, directors, officers and employees, from and against liabilities from any claims, liabilities, costs or expenses (including reasonable attorneys' fees) for damage to any property, personal injuries or deaths caused by or resulting from any acts or omissions, its agents, employees, independent contractors or otherwise by the their operations.

**7. CONTINGENT LIABILITIES**

Per an agreement signed on January 3, 1991, between the Indiana and Ohio Central Railroad and the Port Authority, the Port Authority agrees to repay the IORY contribution of \$116,170 toward the purchase of the railroad, upon the occurrence of any of the following conditions:

- Should the IORY no longer provide rail service for the line after the line remains unused for a period of twelve months.
- Should the railroad be sold, abandoned, or otherwise disposed of, the Port Authority will repay the IORY an amount equal to 4.04% of the net proceeds of the sale, or
- The Port Authority will repay the \$116,170 to IORY within three months of operation of the line by someone other than IORY.

There is no liability provision for any of these occurrences in the financial statements due to the remoteness of the occurrences.

**8. LONG-TERM OBLIGATIONS**

The Port Authority has the following loan obligations with the Ohio Department of Transportation:

<u>Loans</u>	<u>Balance 12/31/2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2011</u>	<u>Amount Due in One Year</u>
2007 SIB loan, 3.00%	\$ 279,925	-	(52,702)	227,223	54,294
ORDC loan 5.17%	180,419	-	(41,677)	138,742	43,883
ORDC loan 5.00%	197,200	-	(37,790)	159,410	38,939
ORDC loan 2.17%	319,048	-	(55,980)	263,068	55,191
<b>Total</b>	<b>\$ 976,592</b>	<b>-</b>	<b>(188,149)</b>	<b>788,443</b>	<b>192,307</b>

On May 11, 2007, the Port Authority entered into a loan agreement for an amount up to \$377,261 with the Ohio Department of Transportation for the purpose of financing railroad track rehabilitation on the U.S. Route 36 grade crossing separation. The Port needed only \$367,970 to complete the rehabilitation project. Accrued interest of \$11,039 was added to the principal during 2009. The note bears interest a zero percent interest rate for the first twelve months and three percent interest rate thereafter.

On November 9, 2007, the Port Authority entered into a loan agreement for \$308,000 with the Ohio Railroad Development Commission for the purpose of partially financing the replacement of bridge #224.7 over Sugar Creek in Fayette County. The loan was issued for a period of seven years at a rate of 0% from January 1, 2008 through December 31, 2009 and 5.17% from January 1, 2010, until paid.

**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
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On October 16, 2008, the Port Authority entered into a loan agreement for \$280,417 with the Ohio Railroad Development Commission for the purpose of partially financing the replacement of bridge #222.2 over Sugar Creek in Fayette County. The loan was issued for a period of seven years at a rate of 0% from December 1, 2009 through November 30, 2010 and 5.00% from December 1, 2010, until paid.

On June 15, 2009, the Port Authority entered into a loan agreement for \$400,000 with the Ohio Railroad Development Commission for the purpose of financing railroad track rehabilitation. The loan was issued for a period of seven years at a rate of 0% from August 1, 2009 through July 31, 2011 and 2.17% from August 1, 2011, until paid.

Combined principal and interest requirements to retire these loans are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest/ Admin.</u>	<u>Total</u>
2012	\$ 192,307	21,960	214,267
2013	198,665	15,602	214,267
2014	205,256	9,011	214,267
2015	157,265	3,377	160,642
2016	<u>34,950</u>	<u>253</u>	<u>35,203</u>
Total	\$ <u>788,443</u>	<u>50,203</u>	<u>838,646</u>

**9. RISK MANAGEMENT**

The Port Authority is covered by general liability and public official liability insurance with the County Risk Sharing Authority. Coverage with a private carrier provides, bonding, liability insurance on the rails, right-of-way, theft and property damage. The Port Authority is co-insured with Indiana and Ohio Railroad for any operational liability.

There has been no significant reduction in coverage in relation to the prior year. Settled claims have not exceeded commercial coverage in any of the last three years.

**10. RELATED PARTY**

The Port Authority billed \$19,400 for maintenance fees to Damewood Enterprises in 2011. Gerald Damewood, a board member of the Port Authority, is the owner of Damewood Enterprises.



**WEST CENTRAL OHIO PORT AUTHORITY  
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**11. PRIOR PERIOD ADJUSTMENT**

As outlined in the Shortline Railroad Agreement with the Indiana & Ohio Railroad, Inc. (IORY), the Port Authority is required to reimburse IORY for real estate taxes paid by the IORY on behalf of the Port Authority. During 2011, the Port Authority received invoices for real estate taxes in the amounts of \$31,425; \$32,176 and \$30,935 for the tax years ending December 31, 2008; 2009 and 2010, respectively. The Port Authority recorded a prior period adjustment to correct the real estate tax accrual as of December 31, 2010. The following account balances for 2010 were restated as a result of this adjustment.

	As Previously Reported	Adjustments	Restated Amounts
Accrued Real Estate Taxes	\$ <u>137,380</u>	<u>(42,844)</u>	<u>94,536</u>
Net assets	\$ <u>12,047,452</u>	<u>42,844</u>	<u>12,090,296</u>

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## Balestra, Harr & Scherer, CPAs, Inc.

Accounting, Auditing and Consulting Services for Federal, State and Local Governments

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### **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by *Government Auditing Standards***

West Central Ohio Port Authority  
Clark County  
Springview Government Center  
3130 East Main Street, Suite 2B  
Springfield, Ohio 45505

To the Board of Directors:

We have audited the financial statements of the business-type activities of the West Central Ohio Port Authority, Clark County, Ohio, (the Authority), as of and for the year ended December 31, 2011, and have issued our report thereon dated June 15, 2012. 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 Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of opining on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the Authority's internal control over financial reporting.

*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 more than a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and timely corrected.

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

### **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, 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*

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

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

Balestra, Harr & Scherer, CPAs, Inc.  
June 15, 2012



# Dave Yost • Auditor of State

WEST CENTRAL OHIO PORT AUTHORITY

CLARK 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  
OCTOBER 23, 2012