



Dave Yost • Auditor of State

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

Southeastern Ohio Port Authority
Washington County
710 Colegate Drive
Marietta, Ohio 45750

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Port 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 those risks of financial statement material misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Port 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 Port 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 overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southeastern Ohio Port Authority, Washington County, as of December 31, 2012, and the changes in its financial position and its cash flows for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the Port Authority adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2013, on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. 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 Port Authority's internal control over financial reporting and compliance.



Dave Yost
Auditor of State

Columbus, Ohio

August 8, 2013

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**STATEMENT OF NET POSITION
DECEMBER 31, 2012**

Assets

Cash and Cash Equivalents	\$ 62,924
Intergovernmental Receivable	102,684
Capital Assets, Net of Depreciation	664
Capital Assets, Good River Distribution	4,116,761
Prepaid Insurance	1,295
	<hr/>

Total Assets 4,284,328

Liabilities

Current Liabilities:

Accounts Payable	14,564
Current Portion of Long Term Debt	586,492
	<hr/>

Total Current Liabilities

601,056

Long-Term Liabilities (Net of Current Portion):

OEBF Loan Payable	619,805
OWDA Loan Payable	3,496,956
Less Current Portion of Long Term Debt	(586,492)
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Total Long-Term Liabilities

3,530,269

Total Liabilities 4,131,325

Net Position

Invested in Capital Assets	664
Unrestricted	152,339
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Total Net Position

\$ 153,003

See accompanying notes to the basic financial statements.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

Operating Revenues	
Donations	\$ 48,550
Miscellaneous	95,000
	<hr/>
<i>Total Operating Revenues</i>	143,550
Operating Expenses	
Salaries and Benefits	128,194
Contractual Services	116,701
Professional Fees	14,683
Materials and Supplies	7,513
Travel and Memberships	8,916
Marketing	1,217
Rent	1,200
Insurance and Bonding	2,355
Depreciation Expense	204
	<hr/>
<i>Total Operating Expenses</i>	280,983
<i>Operating Gain (Loss)</i>	(137,433)
Non-Operating Revenue/(Expense):	
Interest Income	17
Operating Grants	174,783
	<hr/>
<i>Net Change in Fund Balance</i>	37,367
<i>Fund Balance Beginning of Year</i>	115,636
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<i>Fund Balance End of Year</i>	<u><u>\$ 153,003</u></u>

See accompanying notes to the basic financial statements.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Increase (Decrease) in Cash and Cash Equivalents

Cash Flows from Operating Activities

Cash Received from Donors	\$	48,550
Cash Payments for Employee Services and Benefits		(128,194)
Cash Payments for Goods and Services		(145,358)
Other Operating Revenues		95,750
		95,750

<i>Net Cash Provided by Operating Activities</i>		(129,252)
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Cash Flows from Capital and Related Financing Activities

Grants Available for Operating Purposes		130,779
Payments for Capital Acquisitions		(4,116,761)
Proceeds from OWDA Loan		3,496,956
Proceeds from OEBF Loan		619,805
		619,805

<i>Net Cash Provided for Capital and Related Financing Activities</i>		130,779
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Cash Flows from Investing Activities

Interest Earned from Bank Accounts		17
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<i>Net Cash Provided by Investing Activities</i>		17
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<i>Net Increase in Cash and Cash Equivalents</i>		1,544
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<i>Cash and Cash Equivalents Beginning of Year</i>		61,380
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<i>Cash and Cash Equivalents End of Year</i>	\$	62,924
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities

Operating Income (Loss)	\$	(137,433)
Depreciation		204

Changes in Assets and Liabilities:

Decrease in Miscellaneous Receivable		792
Increase in Prepaid Insurance		(148)
Increase in Accounts Payable		7,333
		7,333

<i>Net Cash Provided by Operating Activities</i>	\$	(129,252)
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See accompanying notes to the basic financial statements.

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**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012**

NOTE 1 - REPORTING ENTITY

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

The Port Authority Board of Directors consists of the number of Directors it deems necessary and they are appointed by the Washington County Commissioners. As such, it is considered a discretely presented component unit of Washington County. Currently, fifteen (15) Directors serve on the Board.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Port Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to its business-type activities provided they do not conflict with or contradict GASB pronouncements. The Port Authority has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities.

A. Basis of Presentation

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

B. Measurement Focus

The government-wide financial statements are prepared using the flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Port Authority are included on the Statement of Net Assets.

The Statement of Revenues, Expenses and Changes in Net Assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The Statement of Cash Flows provides information about how the Port Authority finances and meets the cash flow needs of its business-type activities.

C. Basis of Accounting

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

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

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

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

D. Budgetary Process

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

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

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

Encumbrances: The Ohio Revised Code requires the Port Authority to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are cancelled, and reappropriated in the subsequent year.

E. Cash

Cash assets are maintained in non-interest bearing and interest bearing checking, savings and money market accounts.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 201G are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expense is reported in the year in which services are consumed.

G. Capital Assets

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

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

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Accrued Liabilities and Long-Term Obligations

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

I. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or through external restrictions imposed by creditors, or laws or regulations of other governments. The Port Authority did not have any restricted net assets.

J. Operating Revenues and Expenses

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

K. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2012, the Port Authority has implemented Governmental Accounting Standard Board (GASB) Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" and Statement No. 65, "Items Previously Reported as Assets and Liabilities."

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related note disclosures. These changes were incorporated in the Port Authority's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). These changes were incorporated in the Port Authority's 2012 financial statements; however, there was no effect on beginning net position/fund balance.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS

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

1. Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Port Authority Treasury, in commercial accounts payable or that can be withdrawn on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
2. Inactive deposits are public deposits that the Port Authority has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.
3. Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

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

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

1. United States Treasury Notes, Bill, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to payment of principal and interest by the United States, or any book entry, zero-coupon United States treasury security that is a direct obligation;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality;
3. Written repurchase agreements in securities listed above;
4. Bonds and other obligations of the State of Ohio or its political subdivisions;
5. Time certificates of deposits or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-loan money market mutual funds;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the County lends securities and the eligible institution agrees to simultaneously exchange similar securities or cash, equal value for equal value;
9. Commercial paper notes, corporate notes and bankers acceptances; and
10. Debt interests rated at the time of purchase in the three highest categories by two nationally recognized standard rating services and issued by foreign nations diplomatically recognized by the United States government.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 4 - DEPOSITS AND INVESTMENTS (Continued)

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

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

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

Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the Port Authority or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

NOTE 5 - RECEIVABLES

Receivables at December 31, 2012, consisted of intergovernmental receivables. All receivables are considered collectible in full.

A. Intergovernmental Receivable

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

	Amount
ODOD Business Park Grant	\$50,000
Ingenuity Center Receivable - JRS	52,684
Total	\$102,684

NOTE 6 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance December 31, 2011	Additions	Balance December 31, 2012	Accumulated Depreciation	Net Capital Assets
Depreciable Capital Assets:					
Equipment and Furniture	\$ 7,510	\$ -	\$ 7,510	\$ (6,846)	\$ 664

See Note 11 for information regarding the Good River Distribution, LLC capital assets.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 7 - RISK MANAGEMENT

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

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

Bond Coverage for the Secretary/Treasurer is included in Non-Profit Organization and Management Liability Insurance Policy.

NOTE 8 – DEFINED BENEFIT PENSION PLAN

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

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

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll. Members in the state and local divisions may participate in all three plans. For 2012, member and employer contribution rates were consistent across all three plans.

The Port Authority’s 2012 contribution rate was 14.0 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. The portion of employer contribution allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The Port Authority’s required contributions for pension obligations made for the years ended December 31, 2012, 2011 and 2010 were \$12,498, \$11,429 and \$9,825 respectively; 100 percent was contributed for 2012, 2011 and 2010.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 9 - POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

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

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

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

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local government employers contributed 14.0 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employers.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4 percent for 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent for 2012.

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

The Port Authority (employer) contribution rate for 2012 was 14 percent of covered payroll. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the Port Authority of 14 percent.

The Port Authority's required contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011 and 2010 were \$756, \$691 and \$3,186, respectively; 100 percent was contributed for 2012, 2011 and 2010.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 10 - ODNR PROJECT

ODNR TREE FARM PROJECT

On April 12, 2010, the Ohio Department of Natural Resources (ODNR) and the Port Authority entered into a Memorandum of Understanding relative to the disposition of the former Marietta Tree Farm. On December 31, 2012, the ODNR closed on the sale of the Tree Farm. In January 2013, the Port Authority received a payment of \$50,000 for a 5% facilitation fee for the sale of the ODNR Tree Farm.

NOTE 11 - ERAMET WATER PROJECT

Good River Distribution, LLC

The Port Authority entered into a private/public partnership with Eramet Marietta, LLC, Americas Styrenics, Solvay Advanced Polymers and Energizer for the construction and lease of Good River Distribution, LLC.

Good River Distribution, LLC is a water production facility located across from the aforementioned industries on the banks of the Ohio River. The Good River Distribution LLC water production facility provides process water and fire water to the partner industries.

Good River Distribution LLC is owned by the Port Authority until such time as the lease repayments are complete.

Funding for the Water Project was provided by the Ohio Enterprise Bond Fund (OEBF) and Ohio Water Development Authority (OWDA) as described in Note 12.

The capital assets of the Good River distribution are reflected in the Statement of Net Position until such time as the transfer of ownership takes place.

NOTE 12 – LONG TERM DEBT

The changes in the Port Authority's long term obligations during the fiscal year consist of the following:

	Principal			Principal		Amounts
	Outstanding			Outstanding		Due in
	<u>12/31/2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/2012</u>	<u>One Year</u>	
OWDA Loan-Good River Water Project	\$0	\$3,496,956	\$0	\$3,496,956	\$373,159	
OEBF Bonds-Good River Water Project		619,805		619,805	213,333	
	<u>\$0</u>	<u>\$4,116,761</u>	<u>\$0</u>	<u>\$4,116,761</u>	<u>\$586,492</u>	

During 2012, the Southeastern Ohio Port Authority obtained a loan in the amount of \$6,000,000 from the Ohio Water Development Authority for construction, maintenance, and operation of a local economic development (water) project in Marietta Ohio. The loan will be repaid solely by lease payments received from members of Good River Distribution, LLC. The maturity date is January, 2028. As of December 31, 2012, this loan has not been fully drawn down and no amortization schedule exists.

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2012
(Continued)**

NOTE 12 – LONG TERM DEBT (Continued)

Also during 2012, the Port Authority obtained a state assistance Revenue Bond, Series 2012 in the amount of \$4,175,000 to acquire, install and construct a water screening, service water supply and pumping system at a facility in Marietta Ohio. The loan will be repaid solely by lease payments received from members Of Good River Distribution, LLC. The interest rate is 4.375% and the maturity date is June, 2027. As of December 31, 2012, this loan has not been fully drawn down and no amortization schedule exists.

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Dave Yost • Auditor of State

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

Southeastern Ohio Port Authority
Washington County
710 Colegate Drive
Marietta, Ohio 45750

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 basic financial statements of the Southeastern Ohio Port Authority, Washington County, Ohio (the Port Authority), a component unit of Washington County, Ohio, as of and for the year ended December 31, 2012, and the related notes to the financial statements and have issued our report thereon dated August 8, 2013 wherein we noted the Port Authority has adopted Governmental Accounting Standards Board Statements No. 63 and No. 65.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the Port 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 opinion on the financial statement, but not to the extent necessary to opine on the effectiveness of the Port Authority's internal control. Accordingly, we have not opined on it.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. However, as described in the accompanying Schedule of Findings we identified a certain deficiency in internal control over financial reporting, that we consider a material weakness.

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 a 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 Port Authority's financial statements. We consider finding 2012-001 described in the accompanying Schedule of Findings to be a material weakness.

Compliance and Other Matters

As part of reasonably assuring whether the Port Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, 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 are described in the accompanying Schedule of Findings as item 2012-001.

Entity's Response to Findings

The Port Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings. We did not audit the Port 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 Port Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Port Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State

Columbus, Ohio

August 8, 2013

**SOUTHEASTERN OHIO PORT AUTHORITY
WASHINGTON COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2012**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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FINDING NUMBER 2012-001

Noncompliance and Material Weakness

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

During the GAAP conversion, certain transactions were not posted or were posted incorrectly.

The following items were noted affecting the Statement of Net Position:

- Capital Assets, Good River Distribution was understated by \$20,927 as a result of capital asset expenditures not posted correctly.
- Unrestricted Net Assets was understated in the amount of \$4,116,097 as a result of incorrect posting of net assets.
- Invested in Capital Assets, Net of Related Debt was overstated by \$4,095,170 as the result of debt incorrectly included in total.
- Intergovernmental Receivables and Net Position were overstated by \$5,000 as a result of a receivable recorded twice.

The following items were noted affecting the Statement of Revenues, Expenditures and Changes in Fund Balance:

- Interest Expense was overstated and Fund Balance was understated by \$20,927 as a result of capital asset expenditures posted as interest.
- Operating Grants and Fund Balance were overstated \$5,000 as a result of grant funds posted twice.

As a result, significant adjustments and reclassifications, with which the Port Authority's management agrees, were made to the financial statements and ledgers, and are reflected in the accompanying financial statements.

We recommend the Executive Assistant take additional care in overseeing the GAAP conversion of the Port Authority's ledgers in order to ensure the financial statements are accurate and complete.

Officials' Response: The staff of the Southeastern Ohio Port Authority have reviewed and corrected the items affecting the Statement of Net Position and the Statement of Revenues, Expenditures and Changes in Fund Balance as listed above. Due care in financial management will be taken by the Executive Assistant to make sure Cash to Accrual conversions are done correctly.

Transactions in question were part of the Good River Distribution LLC Project. \$4,116,097 in Unrestricted Net Assets was understated and \$4,095,170 in Invested Capital Assets, Net of Related Debt was overstated. \$20,927 of Capital Assets was understated.

The Statement of Revenues, Expenditures and Changes in Fund Balance were affected by an interest expense being overstated and fund balance understated by \$20,927 as a result of capital asset expenditures posted as interest. The Operating Grants and Fund Balance were overstated by \$5,000 due to a duplicate post.

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Dave Yost • Auditor of State

SOUTHEASTERN OHIO PORT AUTHORITY

WASHINGTON COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 22, 2013**