



**Auditor of State
Betty Montgomery**

WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY

TABLE OF CONTENTS

<u>TITLE</u>	<u>PAGE</u>
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets - As of December 31, 2004	8
Statement of Revenues, Expenses, and Changes in Net Assets – For the Year Ended December 31, 2004	9
Statement of Cash Flows - For the Year Ended December 31, 2004	10
Notes to the Basic Financial Statements	11
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	19

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

West Central Ohio Port Authority
Clark County
76 East High Street
Springfield, Ohio 45502

To the Board of Directors:

We have audited the accompanying basic financial statements of the West Central Ohio Port Authority, Clark County, (the Port Authority), as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Port Authority, as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2004, the Port Authority implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 12, 2005

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(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, 2004. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

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

Financial Highlights

Key financial highlights for 2004 are as follows:

- Total net assets increased \$385,647 in 2004, primarily due to a capital contribution from the Indiana & Ohio Central Railroad resulting in excess revenues over expenses for the year.
- Total assets increased \$247,751 which represents a 3.11 percent increase from the prior year. The increase was primarily due to increase in cash held by the Port Authority.
- Total liabilities decreased by \$137,896 resulting from repayment of the Ohio Rail Development Commission and the Ohio Department of Transportation loans during 2004.
- The operating income reported of \$8,185 for 2004 was \$24,540 less than the operating income reported for 2003. The decrease was primarily due to increase in railroad track repairs and maintenance expenses during 2004.

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.

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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(UNAUDITED)
(Continued)**

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 2004 compared with 2003.

**Table 1
Net Assets**

	<u>2004</u>	<u>2003</u>
Assets:		
Current and other assets	\$1,866,258	\$1,399,552
Capital assets, net	<u>6,339,501</u>	<u>6,558,456</u>
Total Assets	<u>8,205,759</u>	<u>7,958,008</u>
Liabilities:		
Current liabilities	192,187	149,137
Non-current liabilities	<u>914,437</u>	<u>1,095,383</u>
Total Liabilities	<u>1,106,624</u>	<u>1,244,520</u>
Net Assets:		
Invested in capital assets, net of related debt	5,287,064	5,370,073
Restricted for capital improvements	335,392	
Unrestricted	<u>1,476,679</u>	<u>1,343,415</u>
Total Net Assets	<u>\$7,099,135</u>	<u>\$6,713,488</u>

Total net assets of the Port Authority increased by \$385,647 or 5.74 percent. The increase in total net assets from 2003 was due to capital contributions from the Indiana & Ohio Central Railroad to be used for the Upper Valley Pike bridge replacement. Most of the planning for the bridge replacement occurred in 2004 and the construction was completed subsequently in early 2005.

As noted in Table 1 above, reported restricted net assets for capital improvements at December 31, 2004 was \$335,392. The balance represents the unspent portion of the capital contributions received from the Indiana & Ohio Central Railroad. The unrestricted net assets increased by \$133,264 due to an overall increase in revenues over expenses during 2004.

The decrease of \$83,009 in net assets invested in capital assets, net of related debt results from recognizing current year depreciation of capital assets (\$280,146), offset by current year capital asset acquisition in the amount of \$68,691, \$7,500 land disposal and the repayment of debt used to acquire property, plant and equipment in previous years.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(UNAUDITED)
(Continued)**

Table 2 shows the changes in net assets for the year ended December 31, 2004, as well as revenue and expense comparisons to 2003.

**Table 2
Changes in Net Assets**

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Use Fees - Operations	\$98,649	\$91,280
Lease Receipts - Property	63,561	60,427
Maintenance Fees	278,363	285,534
Other operating revenues	12,747	12,660
Non-Operating Revenues:		
Interest Income	14,802	14,757
Grant Income	28,407	294,392
Gain on sale of assets		11,067
Capital contributions	<u>421,664</u>	
Total Revenues	<u>918,193</u>	<u>770,117</u>
Operating Expenses:		
Legal Fees	7,696	11,124
Real Estate Service	5,061	7,566
Bookkeeping Service	7,000	6,936
Accounting Service	9,539	7,443
Administration - Clark County TCC	34,272	42,977
Planning - Clark County TCC	5,000	5,000
Track Studies/Inspection/Construction Management	3,188	14,081
Taxes, Licenses and Fees	14,254	8,901
Insurance - Bond	299	299
State Audit	5,824	6,623
Amortization of Organizational Costs	812	812
Depreciation	280,146	273,122
Nuisance and Abatement	7,372	3,248
Loan Fees and Letter of Credit		5,356
Repairs and Maintenance	53,490	17,024
Advertising	3,635	603
Other Operating Expenses	7,547	6,061
Non-Operating Expenses:		
Interest Expense	47,411	86,891
Other Non-Operating Expenses	<u>40,000</u>	
Total Expenses	<u>532,546</u>	<u>504,067</u>
Increase in Net Assets	385,647	266,050
Net Assets, Beginning of Year	<u>6,713,488</u>	<u>6,447,438</u>
Net Assets, End of Year	<u>\$7,099,135</u>	<u>\$6,713,488</u>

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(UNAUDITED)
(Continued)**

The increase in use fees was due to an increase in the number of carloads transported during the year. The maintenance fees decreased as a result of lower usage by a couple of customers during 2004. The grant income decreased by approximately \$266,000 because lower reimbursements were requested from the State of Ohio Rail Development Commission grants. As of December 31, 2004, the Port Authority has two unspent grants from the State of Ohio Rail Development Commission in the amounts of approximately \$327,200 (original grant was for \$400,000 to be used to the Upper Valley Pike Bridge replacement) and \$40,000 to be used towards the replacement of the Stoney Run culvert on the Maitland line.

Total expenses of the Port Authority reported for the year were \$28,479 higher than those reported for the previous year. The following factors contributed to this increase in 2004: the Port Authority made a one-time contribution to an unaffiliated not-for-profit organization in the amount of \$40,000 during 2004 for economic development of property adjacent to the rail lines owned by the Port Authority. The Port Authority also spent \$36,466 more in repairs and maintenance costs during 2004 on the railroad lines and culvert repairs. The administrative expenses, legal fees, real estate management services and track studies and inspection expenses decreased cumulatively in the amount of \$26,262 during 2004.

Capital Assets

At December 31, 2004 capital assets of the Port Authority were \$8,938,394 off-set by \$2,598,893 in accumulated depreciation resulted in net capital assets of \$6,339,501. Table 3 shows the categories of capital assets maintained by the Port Authority, net of accumulated depreciation, at December 31, 2004 and 2003.

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

	2004	2003
Land	\$1,243,733	\$1,251,233
Equipment and Appendices	992,175	992,175
Spur	207,951	207,951
Railroad	6,474,794	6,425,844
Construction in progress	19,741	-
Total capital assets	8,938,394	8,877,203
Less accumulated depreciation	(2,598,893)	(2,318,747)
Totals	\$6,339,501	\$6,558,456

The \$218,955 decrease in total net capital assets is due to current year depreciation expense of \$280,146 exceeding the \$68,691 of capital assets acquired during 2004, less \$7,500 land sold during 2004.

See Note 7 of the notes to the basic financial statements for more detailed information on the Port Authority's capital assets.

Debt

At December 31, 2004, the debt obligations of the Port Authority consisted of two separate loan obligations with the Ohio Department of Transportation entered into in prior years to for the purpose of financing railroad track rehabilitation projects. See Note 10 to the basic financial statements for additional details.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2004
(UNAUDITED)
(Continued)**

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, 76 East High Street, Springfield, Ohio 45502.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**STATEMENT OF NET ASSETS
DECEMBER 31, 2004**

Assets:

Current assets:

Cash and Cash Equivalents	\$1,578,220
Accounts Receivable	204,120
Notes Receivable	<u>63,023</u>
Total current assets	<u>1,845,363</u>

Non-current assets:

Capital Assets (net, where applicable, of accumulated depreciation):	
Property, Plant and Equipment	6,339,501
Organizational Costs	<u>20,895</u>
Total non-current assets	<u>6,360,396</u>
Total Assets	<u>8,205,759</u>

Liabilities:

Current liabilities:

Accounts Payable	12,580
ODOT State Infrastructure Bank Loans Payable, current portion	<u>179,607</u>
Total current liabilities	<u>192,187</u>

Non-current liabilities:

ODOT State Infrastructure Bank Loans Payable, less current portion	872,830
Accrued Interest Payable	<u>41,607</u>
Total non-current liabilities	<u>914,437</u>
Total Liabilities	<u>1,106,624</u>

Net Assets:

Invested in capital assets, net of related debt	5,287,064
Restricted for capital improvements	335,392
Unrestricted	<u>1,476,679</u>
Total net assets	<u><u>\$7,099,135</u></u>

The notes to the financial statement are an integral part of this statement.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Operating Revenues:

Use Fees - Operations	\$98,649
Lease Receipts - Property	63,561
Maintenance Fees	278,363
Document Fees	1,050
Marketing Partnership	6,000
Miscellaneous	5,697
Total Operating Revenues	<u>453,320</u>

Operating Expenses:

Legal Fees - General Council	3,653
Legal Fees - Special Council	4,043
Real Estate Service	5,061
Bookkeeping Service	7,000
Accounting Service	9,539
Administration - Clark County TCC	34,272
Planning - Clark County TCC	5,000
Meetings	846
Track Studies/ Inspection/ Construction Management	3,188
Taxes, Licenses and Fees	14,254
Insurance - Bond	299
State Audit	5,824
Amortization of Organizational Costs	812
Depreciation	280,146
Marketing	4,225
Nuisance & Abatement	7,372
Travel and Training	638
Repairs and Maintenance	53,490
Advertising	3,635
Miscellaneous Expense	1,838
Total Operating Expenses	<u>445,135</u>

Operating income	8,185
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Non-Operating Revenue (Expenses)

Interest Income	14,802
Grant income	28,407
Other expenses	(40,000)
Interest Expense	(47,411)
Total Non-Operating Revenue (Expenses)	<u>(44,202)</u>

Net loss before contributions	(36,017)
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Capital contributions	<u>421,664</u>
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Change in net assets	385,647
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Net Assets at the Beginning of Year	<u>6,713,488</u>
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Net Assets at the End of Year	<u><u>\$7,099,135</u></u>
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**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash Flow From Operating Activities:

Cash received from customers	\$450,539
Cash payments to suppliers for goods and services	(164,788)
Other operating revenue	<u>12,747</u>
 Net Cash Provided by Operating Activities	 <u>298,498</u>

Cash Flows From Noncapital Financing Activities:

Interest Income	11,047
Grants received	28,407
Principal Received from Landmark	21,162
Interest Received from Landmark	3,755
Contributions to others	<u>(40,000)</u>
 Net Cash Provided by Noncapital Financing Activities	 <u>24,371</u>

Cash Flow from Capital and Related Financing Activities:

Capital acquisitions	(68,691)
Proceeds from sale of assets	2,500
Principal paid on ODOT Loans	(129,489)
Principal paid on ORDC Loan	(6,457)
Accrued Interest paid on ODOT Loans	(1,339)
Capital contributions received	421,664
Interest paid on Loan	<u>(47,411)</u>
 Net Cash Used by Capital and Related Financing Activities	 <u>170,777</u>

Net Change in Cash and Cash Equivalents	493,646
 Cash and Cash Equivalents at the Beginning of Year	 <u>1,084,574</u>
 Cash and Cash Equivalents at the End of Year	 <u><u>1,578,220</u></u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Operating Income	8,185
Adjustments to reconcile Operating Income to Net Cash Provided by Operating Activities:	
Amortization Expense	812
Depreciation Expense	280,146
Change in Receivables	9,966
Change in Accounts Payables	<u>(611)</u>
 Total Adjustments	 <u>290,313</u>
 Net Cash Provided by Operating Activities	 <u><u>\$298,498</u></u>

The notes to the financial statement are an integral part of this statement.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004**

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 within the City of Springfield and within the Springfield City 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 more significant of the Port Authority's accounting policies are described below.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

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 collectibility. Receivables at December 31, 2004 consisted of rent or lease account billings and trackage rights. All receivables are considered collectible in full.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fixed Assets and Depreciation

Property, plant and equipment are recorded at cost 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	5 Years

G. 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 2004, the Port Authority incurred no interest which was capitalized.

H. 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.

I. 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 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, interest income and expenses comprise the non-operating revenues and expenses of the Port Authority.

J. 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.

3. CHANGE IN ACCOUNTING PRINCIPLES

In 2004, the Port Authority implemented GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

3. CHANGE IN ACCOUNTING PRINCIPLES (Continued)

GASB 34 creates new basic financial statements for reporting on the Port Authority's financial activities and requires the inclusion of the Management Discussion and Analysis section which provides a narrative introduction and overview of the financial statements to enhance the user's ability to interpret the information within the statements.

4. DEPOSITS AND INVESTMENTS

State statutes classify monies held by the Port Authority in two categories.

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

Inactive deposits are public deposits that the Port Authority has identified as not required for use within the current two 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, pass book accounts.

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

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.

The Port Authority's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits that are insured or collateralized with securities held by the Port Authority or its safekeeping agent in the Port Authority's name. Category 3 includes uninsured and uncollateralized with securities held by the pledging institution, or by its trust department or safekeeping agent, but not in the Port Authority's name.

Deposits: At year end, the carrying amount of the Port Authority's deposits was \$1,578,220 and the bank balance was \$1,581,953. Of the bank balance:

- \$100,000 was covered by federal depository insurance and
- \$1,481,953 was collateralized by the financial institutions public entity deposit pool (Category 3).

5. 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 amounts are recorded as revenue.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

6. LOANS RECEIVABLE

On May 15, 2001, the Port Authority entered into an agreement to advance payment to Champaign Landmark, Inc. for expenses incurred to rehabilitate tracks known as the Champaign Landmark yard area at Mechanicsburg at a total cost of \$127,501. The loan was issued for a period of six years at a rate of 5.25% from August 15, 2001 through May 15, 2007. Principal and interest receivable at December 31, 2004 are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$22,306	\$2,610	\$24,916
2006	23,500	1,416	24,916
2007	<u>12,217</u>	<u>240</u>	<u>12,457</u>
Total	<u>\$58,023</u>	<u>\$4,266</u>	<u>\$62,289</u>

On December 18, 2003, the Port Authority entered into an agreement to sell approximately 29,346 square feet of the Port Authority land located in South Charleston, Ohio to the Village of South Charleston, Ohio for \$7,500. A promissory note for \$7,500 with 0% interest was issued for a period of three years, requiring equal payments of \$2,500 each on January 10, 2004, January 10, 2005 and January 10, 2006. The remaining principal balance of \$5,000 at December 31, 2004 is included in the notes receivable amount of \$63,023 on the statement of net assets.

7. CAPITAL ASSETS

A summary of the property, plant and equipment purchased as of December 31, 2004, follows. These assets are substantially leased to a third party:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$1,251,233		(\$7,500)	\$1,243,733
Construction in progress		\$19,741		19,741
	<u>1,251,233</u>	<u>19,741</u>	<u>(7,500)</u>	<u>1,263,474</u>
Capital assets being depreciated:				
Equipment and Appendices	992,175			992,175
Spur	207,951			207,951
Railroad	6,425,844	48,950		6,474,794
	<u>7,625,970</u>	<u>48,950</u>		<u>7,674,920</u>
Less Accumulated Depreciation on:				
Equipment and Appendices	(803,173)	(54,280)		(857,453)
Spur	(115,934)	(10,695)		(126,629)
Railroad	(1,399,640)	(215,171)		(1,614,811)
	<u>(2,318,747)</u>	<u>(280,146)</u>		<u>(2,598,893)</u>
Capital assets, net	<u>\$6,558,456</u>	<u>(\$211,455)</u>	<u>(\$7,500)</u>	<u>\$6,339,501</u>

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

8. RAILROAD OPERATING LEASE

The Port Authority entered into a shortline railroad operating agreement with the Indiana and Ohio Central Railroad, Inc., (IOCR) on September 4, 1990, for operation as a shortline carrier. The lease 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 lease permits the Railroad (IOCR) to terminate the lease after 36 months without cause by delivering a written notice to the Port Authority at least six months before the effective date of the termination.

In accordance with the lease agreement for the railroad, the lessee is required to maintain and operate the facilities in good condition and to make all necessary repairs and replacements. The lease agreement charges the Port Authority as lessor with responsibility for extraordinary maintenance or capital expenditures. As a means of offsetting major extraordinary maintenance expenditures to the Port Authority, the lease specifies the lessee pay to the Port Authority fees based on a schedule.

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 agreement states that a use fee, used to offset major capital or extraordinary maintenance expenditures which may be required, will be paid annually by the IOCR to the Port Authority.

The IOCR is entitled to revenues derived from its operation of the railroad including switching fees, per diem charges, and demurrage. IOCR is responsible for all expenses associated with operation of the line 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.

The IOCR agrees to indemnify the Port Authority and the Ohio Department of Transportation and hold them harmless from liability for any loss arising from injury or death to person or damage to property including the Shortline property, which may be attributable to IOCR's employees, agents, or contractors.

9. 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 IOCR contribution of \$116,170 toward the purchase of the railroad, upon the occurrence of any of the following conditions:

- Should the IOCR 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 IOCR an amount equal to 4.04% of the net proceeds of the sale, or
- The Port Authority will repay the \$116,170 to IOCR within three months of operation of the line by someone other than IOCR.

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

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
DECEMBER 31, 2004
(Continued)**

10. LONG-TERM OBLIGATIONS

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

On June 1, 2001, the Port Authority entered into a loan agreement for \$870,000 with the Ohio Department of Transportation for the purpose of financing the Mechanicsburg and Maitland lines rehabilitation projects. The loan was issued for a period of eight years at a rate of 5.25%, including administrative cost of .25% from January 1, 2001 through July 1, 2009, with payment commencing August 2002.

On April 18, 2003, the Port Authority entered into a loan agreement for \$605,000 with the Ohio Department of Transportation for the purpose of financing railroad track rehabilitation on the Urbana Industrial Track. The Port Authority needed only \$363,910 to complete the rehabilitation project. The note bears a zero percent interest rate for the first twelve months and a three percent interest rate thereafter. Interest accrues on the loan balance from December 24, 2004 through December 24, 2005, with semi-annual payments of \$50,082 commencing December 24, 2005.

Combined principal and interest requirements to retire the loans with the Ohio Department of Transportation are as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest/ Admin.</u>	<u>Total</u>
2005	\$179,607	\$48,714	\$228,321
2006	232,052	46,352	278,404
2007	242,453	35,951	278,404
2008	253,350	25,053	278,403
2009	<u>144,975</u>	<u>9,080</u>	<u>154,055</u>
Total	<u>\$1,052,437</u>	<u>\$165,150</u>	<u>\$1,217,587</u>

11. 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.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' 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
76 East High Street
Springfield, Ohio 45502

To the Board of Directors:

We have audited the financial statements of the West Central Port Authority, Clark County, (the Port Authority), as of and for the year ended December 31, 2004, and have issued our report thereon dated October 12, 2005, wherein we noted the Port Authority implemented a new financial reporting model, as required by the provisions of Governmental Auditing Standard Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for the State and Local Governments*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

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 grants, 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 such an opinion. The results of our tests disclosed no instances of noncompliance we must report under *Government Auditing Standards*.

West Central Ohio Port Authority
Clark County
Independent Accountants' Report On Internal Control Over
Financial Reporting and on Compliance And Other Matters
Required By *Government Auditing Standards*
Page 2

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

October 12, 2005



**Auditor of State
Betty Montgomery**

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800-282-0370

Facsimile 614-466-4490

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
NOVEMBER 15, 2005**