



bhm cpa group, inc.
CERTIFIED PUBLIC ACCOUNTANTS

WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY

REGULAR AUDIT

For the Year Ended December 31, 2016
Fiscal Year Audited Under GAGAS: 2016

One East Campus View Blvd. Suite 300 • Columbus, OH 43235 • (614) 389-5775 • FAX (614) 467-3920
PO Box 875 • 129 Pinckney Street • Circleville, OH 43113 • (740) 474-5210 • FAX (740) 474-7319
PO Box 687 • 528 S. West Street • Piketon, OH 45661 • (740) 289-4131 • FAX (740) 289-3639

www.bhmcpagroup.com



Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the West Central Ohio Port Authority, Clark County, prepared by BHM CPA Group, Inc., for the audit period January 1, 2016 through December 31, 2016. 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

August 2, 2017

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WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY

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Independent Auditor's Report

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

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of West Central Ohio Port Authority, Clark County, Ohio, (the Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no such 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 West Central Ohio Port Authority, Clark County, Ohio, as of December 31, 2016, 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.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2017, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



BHM CPA Group, Inc
Piketon, Ohio
June 2, 2017

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(unaudited)

This Management Discussion and Analysis (MD&A) of West Central Ohio Port Authority's (the Port Authority) financial performance provides an overall review of the financial activities for the year ended December 31, 2016. 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 MD&A is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in its 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 2016 are as follows:

- Total net position increased by \$268,818 in 2016 compared to an increase of \$1,215,641 in 2015. This decrease was primarily due to \$811,788 decrease in capital contributions, \$96,202 decrease in maintenance fees, and \$98,976 increase in depreciation. These negative changes to the net position were partially offset by \$51,551 increase in use and trackage fees and \$9,724 decrease in Administration - Clark County TCC expense.
- Total assets increased by \$220,199 which represents a 1.61 percent increase from the prior year. The increase was primarily due to an increase of \$760,130 in net capital assets. This increase was offset, in part, by a \$517,469 decrease in cash and cash equivalents reported and a \$22,463 decrease in accounts receivable due lower maintenance and use fees in the 4th quarter.
- Total liabilities decreased by \$48,620 which represents a 25.92 percent decrease from the prior year. This decrease was due to \$34,949 in principal payments on the existing debt and a decrease in accounts payable of \$14,423 due primarily to timing of payments on capital projects.
- The 2016 net operating loss of \$194,834 increased by \$137,648 from the operating loss of \$57,186 for 2015, due to a \$43,221 decrease in operating revenues and a \$94,427 increase in operating expenses. Operating revenues decreased during 2016 due to a decrease of \$141,404 in use and maintenance fees during 2016 as a result of a 26.9 percent decrease in carloads and a 5.9 percent decrease in use fee rates for the year. This was partially offset by a \$96,753 increase in trackage rights caused by an increase in "overhead" traffic being routed onto the Port Authority's tracks offset in part by a 5.7 percent rate decrease. Operating expenses increased in 2016 due to an increase of \$98,976 in depreciation expense for the year partially offset by a \$9,724 decrease in Administration - Clark County TCC expense.

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 position, statement of revenues, expenses and changes in net position, 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 presentation information is the same.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(unaudited)

Statement of Net Position

The statement of net position 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 position is reported in three broad categories (as applicable):

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

Unrestricted Net Position: Consists of net position that does not meet the definition of "Net Investment in Capital Assets" or "Restricted Net Position."

Table 1 provides a summary of the Port Authority's net position for 2016 compared with 2015.

**Table 1
Condensed Statement of Net Position**

	<u>2016</u>	<u>2015</u>
Assets:		
Current and other assets	\$ 620,162	1,160,094
Capital assets, net	<u>13,247,205</u>	<u>12,487,075</u>
Total Assets	<u>13,867,367</u>	<u>13,647,169</u>
Liabilities:		
Current liabilities	<u>138,952</u>	<u>187,572</u>
Total Liabilities	<u>138,952</u>	<u>187,572</u>
Net Positions		
Net investment in capital assets	13,236,054	12,440,163
Unrestricted	<u>492,361</u>	<u>1,019,434</u>
Total Net Position	<u>\$ 13,728,415</u>	<u>13,459,597</u>

Total net position of the Port Authority increased by \$268,818 in 2016 or 2.00 percent compared to an increase of \$1,215,641 in 2015.

As noted in Table 1 above, the unrestricted net position as of December 31, 2016 decreased by \$527,073. The net investment in capital assets, component of net position, increased by \$795,891 resulting from repayment of \$34,949 debt used to acquire capital assets and current year capital asset acquisitions totaling \$1,478,263 offset by current year depreciation of \$717,321.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(unaudited)

Table 2 shows the changes in revenues and expenses for the Port Authority for 2016 and 2015.

**Table 2
Statement of Revenues, Expenses and Changes in Net Position**

	<u>2016</u>	<u>2015</u>
Operating Revenues:		
Use and Trackage Fees - Operations	\$ 336,706	285,155
Lease Receipts - Property	55,228	54,273
Maintenance Fees	340,093	436,295
Document Fees	475	-
Non-Operating Revenues:		
Interest income	72	114
Total Revenues	<u>732,574</u>	<u>775,837</u>
Operating Expenses:		
Legal Fees	11,211	11,840
Real Estate Service	17,616	12,782
Bookkeeping Service	10,800	10,200
Accounting Service	14,500	14,500
Administration - Clark County TCC	57,868	67,592
Planning - Clark County TCC	5,000	2,500
Taxes, Licenses and Fees	32,734	32,183
Insurance - Bond	364	364
Audit fees	7,246	5,184
Amortization of Organizational Costs	812	812
Depreciation	717,321	618,345
Nuisance & Abatement	8,532	6,021
Repairs and Maintenance	39,501	44,840
Advertising	2,920	3,497
Bad debt	-	1,356
Miscellaneous Expense	911	893
Non-Operating Expenses:		
Interest Expense	190	2,845
Total Expenses	<u>927,526</u>	<u>835,754</u>
Excess (Loss) Before Contributions	(194,952)	(59,917)
Capital Contributions	<u>463,770</u>	<u>1,275,558</u>
Change in Net Position	268,818	1,215,641
Net Position at the Beginning of Year	<u>13,459,597</u>	<u>12,243,956</u>
Net Position at the End of Year	\$ <u>13,728,415</u>	\$ <u>13,459,597</u>

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2016
(unaudited)

There was an increase in trackage fees of \$96,753 over the prior year based on a significant increase in "overhead" traffic being routed onto the Port Authority's tracks during 2016. Decrease in use fees of \$45,202 was due to a rate decrease of 5.9% and a decrease in the number of carloads transported during the year – 4,230 railcars served in 2016 compared to 5,784 railcars in 2015. The decrease in maintenance fees of \$96,202 was also due to the decrease in carloads.

Total expenses of the Port Authority reported for the year were \$91,772 higher than those reported for the previous year. The increase in 2016 was due to an increase of \$98,976 in depreciation expense partially offset by a \$9,724 decrease in administration.

Capital Assets

At December 31, 2016 capital assets of the Port Authority were \$21,860,343 off-set by \$8,624,289 in accumulated depreciation resulting in net capital assets of \$13,236,054. Table 3 shows the categories of capital assets maintained by the Port Authority and total accumulated depreciation, at December 31, 2016 and 2015.

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

	<u>2016</u>	<u>2015</u>
Land	\$ 1,205,368	1,205,368
Construction in Progress	340,728	7,397
Equipment and Appendices	3,424,962	3,304,557
Spur	207,951	207,951
Railroad	<u>16,681,334</u>	<u>15,656,807</u>
Total capital assets	21,860,343	20,382,080
Less accumulated depreciation	<u>(8,624,289)</u>	<u>(7,906,968)</u>
Totals	<u>\$ 13,236,054</u>	<u>12,475,112</u>

The \$1,478,263 increase in total capital assets was due to Urbana Line track rehab projects of \$946,307, a slow order repair project of \$37,980, five bridge repairs of \$160,645, and \$333,331 of construction in progress projects at year end, consisting of the 2015 bridge rehab project, Mechanicsburg Bridge #7.93 and #7.67 rehab, and the 2016 slow order emergency repairs. The \$7,397 in construction in progress at December 31, 2015 consisted of the 2015 bridge rehab project and the Urbana line track rehab. Only the Urbana line track rehab project was completed in 2016. Depreciation expense for 2016 and 2015 were \$717,321 and \$618,345, 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, 2016
(unaudited)

Debt

At December 31, 2016, there were no outstanding debt obligations.

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 POSITION
DECEMBER 31, 2016

Assets:

Current assets:

Cash and Cash Equivalents	\$	479,412
Accounts Receivable		<u>140,750</u>
Total current assets		<u>620,162</u>

Non-current assets:

Nondepreciable Capital Assets		1,546,096
Depreciable Capital Assets, Net		11,689,958
Organizational Costs		<u>11,151</u>
Total non-current assets		<u>13,247,205</u>

Total Assets		<u>13,867,367</u>
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Liabilities:

Current liabilities:

Accounts Payable		71,864
Accrued Real Estate Taxes		32,734
Prepaid Rents		<u>34,354</u>
Total current liabilities		<u>138,952</u>

Net Position:

Net Investment in Capital Assets		13,236,054
Unrestricted		<u>492,361</u>
Total net position	\$	<u><u>13,728,415</u></u>

See accompanying notes to the basic financial statements.

WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2016

Operating Revenues:

Use and Trackage Fees - Operations	\$	336,706
Lease Receipts - Property		55,228
Maintenance Fees		340,093
Document Fees		475
Total Operating Revenues		<u>732,502</u>

Operating Expenses:

Legal Fees - General Counsel		10,730
Legal Fees - Special Counsel		481
Real Estate Service		17,616
Bookkeeping Service		10,800
Accounting Service		14,500
Administration - Clark County TCC		57,868
Planning - Clark County TCC		5,000
Taxes, Licenses and Fees		32,734
Insurance - Bond		364
Audit fees		7,246
Amortization of Organizational Costs		812
Depreciation		717,321
Nuisance & Abatement		8,532
Repairs and Maintenance		39,501
Bid advertising		2,920
Miscellaneous Expense		911
Total Operating Expenses		<u>927,336</u>

Operating Loss (194,834)

Non-Operating Revenue (Expenses):

Interest Income		72
Interest Expense		<u>(190)</u>
Total Non-Operating Revenue (Expenses)		<u>(118)</u>

Net loss before contributions (194,952)

Capital contributions 463,770

Change in net position 268,818

Net position at the Beginning of Year 13,459,597

Net position at the End of Year \$ 13,728,415

WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016

Cash Flow From Operating Activities:	
Cash received from customers	\$ 754,962
Cash payments to suppliers for goods and services	<u>(213,021)</u>
Net Cash Provided by Operating Activities	<u>541,941</u>
Cash Flow from Capital and Related Financing Activities:	
Capital acquisitions	(1,488,050)
Principal paid on ORDC Loans	(34,949)
Grants and capital contributions received	463,770
Interest paid on Loans	<u>(253)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(1,059,482)</u>
Cash Flows From Investing Activities:	
Interest Income	<u>72</u>
Net Change in Cash and Cash Equivalents	(517,469)
Cash and Cash Equivalents at the Beginning of Year	<u>996,881</u>
Cash and Cash Equivalents at the End of Year	<u>\$ 479,412</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (194,834)
Adjustments to reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Amortization Expense	812
Depreciation Expense	717,321
Change in Accounts Receivables	22,463
Change in Prepaid Rents	(2)
Change in Accrued Real Estate Taxes	817
Change in Accounts Payables	<u>(4,636)</u>
Total Adjustments	<u>736,775</u>
Net Cash Provided by Operating Activities	<u>\$ 541,941</u>
Non-Cash Item:	
Capital assets acquired through accounts payable	<u>\$ 55,952</u>

See accompanying notes to the basic financial statements.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 more significant of the Port Authority's accounting policies are described below.

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 statement of net position. Equity (i.e., net position) consists of retained earnings. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net position.

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.

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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, 2016 consisted of rent or lease account billings, maintenance fees, and use and trackage rights. All receivables are considered collectible in full.

F. 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:

<u>Category</u>	<u>Threshold</u>	<u>Years</u>
Signals and equipment	\$ 10,000	14 Years
Track	\$ 10,000	30 Years
Office Equipment	\$ 1,000	10 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 2016, 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 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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

J. Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consist of capital assets, net of accumulated depreciation and net of related debt. Net position is 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 position is available.

K. 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 capital contributions of \$463,770 during 2016.

L. 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;

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 Port Authority, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Port Authority, and Student Loan Marketing Port Authority. 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, by 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.

As of December 31, 2016, the carrying amount of the Port Authority's deposits totaled \$479,412 and its bank balance was \$483,102. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosure," as of December 31, 2016, \$233,102 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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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.

5. CAPITAL ASSETS

A summary of the property, plant and equipment purchased as of December 31, 2016, follows. These assets are substantially leased to a third party:

	12/31/15			12/31/16
	Balance	Additions	Disposals	Balance
Capital assets not being depreciated:				
Land	\$ 1,205,368	-	-	1,205,368
Construction in Progress	7,397	334,160	829	340,728
	<u>1,212,765</u>	<u>334,160</u>	<u>829</u>	<u>1,546,096</u>
Capital assets being depreciated:				
Equipment and Appendices	3,304,557	120,405	-	3,424,962
Spur	207,951	-	-	207,951
Railroad	15,656,807	1,024,527	-	16,681,334
	<u>19,169,315</u>	<u>1,144,932</u>	<u>-</u>	<u>20,314,247</u>
Less Accumulated Depreciation on:				
Equipment and Appendices	(1,863,144)	(173,844)	-	(2,036,988)
Spur	(184,298)	(3,639)	-	(187,937)
Railroad	(5,859,526)	(539,838)	-	(6,399,364)
	<u>(7,906,968)</u>	<u>(717,321)</u>	<u>-</u>	<u>(8,624,289)</u>
Capital assets, net	<u>\$ 12,475,112</u>	<u>761,771</u>	<u>829</u>	<u>13,236,054</u>

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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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. In addition, beginning in January 2014, trackage rights are also being paid for the joint trackage between Jeffersonville and Fayne, a distance of 4.82 miles. (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.

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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016

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 12/31/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2016</u>	<u>Amount Due in One Year</u>
ORDC loan 2.17%	34,949	-	(34,949)	-	-
Total	\$ 34,949	-	(34,949)	-	-

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. This note was paid off in full during 2016.

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.

**WEST CENTRAL OHIO PORT AUTHORITY
CLARK COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

10. RELATED PARTY

The Port Authority billed \$39,900 for maintenance fees to Orbis Corporation in 2016. Dan Szklany, a board member of the Port Authority, is the plant manager of Orbis Corporation. The Port Authority also billed \$45,703 for maintenance fees to Heritage Mechanicsburg in 2016. Wes Bahan, a board member of the Port Authority, is the Assistant Manager of Heritage Mechanicsburg.



**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
3130 East Main Street, Suite 2B
Springfield, Ohio 45505

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of West Central Ohio Port Authority, Clark County, Ohio (the Authority), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 2, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "BHM CPA Group". The letters are cursive and somewhat stylized.

BHM CPA Group, Inc
Piketon, Ohio
June 2, 2017



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
AUGUST 15, 2017