



Dave Yost • Auditor of State



**SOUTHERN OHIO PORT AUTHORITY  
SCIOTO COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

Southern Ohio Port Authority  
Scioto County  
433 Third Street  
PO Box 1525  
Portsmouth, Ohio 45662

To the Members of the Board:

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the business-type activities of the Southern Ohio Port Authority, Scioto County, Ohio (the Port Authority), as of and for the years ended December 31, 2012 and 2011, 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 the risks of material financial statement 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 the overall financial statement presentation.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Southern Ohio Port Authority, Scioto County, Ohio, as of December 31, 2012 and 2011, and the respective changes in financial position and where applicable, cash flows, thereof for the years 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 August 29, 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 29, 2013

**Southern Ohio Port Authority**  
*Management's Discussion and Analysis*  
*For the years Ended December 31, 2012 and 2011*  
*(Unaudited)*

The discussion and analysis of the Southern Ohio Port Authority's financial performance provides an overview of the Port Authority's financial performance as a whole for the years ended December 31, 2012 and 2011. The intent of this discussion and analysis is to look at the 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 years and prior year is required to be presented, and is presented in the MD&A.

### **Financial Highlights**

Key financial highlights for 2012 and 2011 follow:

- Total assets decreased \$1,994,759, or 61.77% between 2011 and 2012, and increased \$135,433, or 4.38%, between 2010 and 2011. Total liabilities decreased \$384,318, or 58.32%, between 2011 and 2012, and decreased \$741,424, or 52.94%, between 2010 and 2011. Total net assets decreased \$1,610,441, or 62.66%, between 2011 and 2012, and increased \$876,857, or 51.78%, between 2010 and 2011.
- Total revenues decreased \$1,270,162, or 60.93%, between 2011 and 2012, and increased \$1,662,776, or 394.10%, between 2010 and 2011. Total expenses increased \$1,217,136, or 100.77%, between 2011 and 2012, and increased \$721,622, or 148.42%, between 2010 and 2011.

### **Using this Annual 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 presentations information is the same.

#### *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 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.

This statement reports the Port Authority's net position, however, in evaluating the overall position and financial viability of the Port Authority, non-financial information, such as the condition of the Port Authority's capital assets, will also need to be evaluated.

**Southern Ohio Port Authority**  
*Management's Discussion and Analysis*  
For the years Ended December 31, 2012 and 2011  
(Unaudited)

Table 1 provides a summary of the Port Authority's net position for 2012 and 2011 compared to 2010.

**Table 1**  
Net Position

	<u>2012</u>	<u>2011</u>	<u>2012/2011 Change</u>	<u>2010</u>	<u>2010/2011 Change</u>
<b>Assets</b>					
Current and Other Assets	\$ 196,266	\$ 1,164,410	\$ (968,144)	\$ 1,028,977	\$ 135,433
Capital Assets	1,038,104	2,064,719	(1,026,615)	2,064,719	-
Total Assets	<u>1,234,370</u>	<u>3,229,129</u>	<u>(1,994,759)</u>	<u>3,093,696</u>	<u>135,433</u>
<b>Liabilities</b>					
Other Liabilities	129,448	100,000	29,448	841,424	(741,424)
Long-Term Liabilities	145,234	559,000	(413,766)	559,000	-
Total Liabilities	<u>274,682</u>	<u>659,000</u>	<u>(384,318)</u>	<u>1,400,424</u>	<u>(741,424)</u>
<b>Net Position</b>					
Invested in Capital Assets Net of Debt	892,870	1,505,719	(612,849)	1,505,719	-
Unrestricted	66,818	1,064,410	(997,592)	187,553	876,857
Total Net Position	<u>\$ 959,688</u>	<u>\$ 2,570,129</u>	<u>\$ (1,610,441)</u>	<u>\$ 1,693,272</u>	<u>\$ 876,857</u>

- The decrease in total assets between 2011 and 2012 was due primarily to the sale of property located in New Boston, Ohio at a loss and the reduction in grants receivable. Also, the decrease in the liabilities between 2011 and 2012 was directly related to partial payment on the outstanding debt to Scioto County for loans used to renovate property located in New Boston, Ohio.
- The increase in total assets between 2010 and 2011 was due primarily to the increase in grants receivable. Also, the decrease in the liabilities between 2010 and 2011 was directly related to reduction of deferred revenue.

Table 2 provides a summary of changes in the Port Authority's net assets for 2012 and 2011 as well as revenue and expense comparison to 2010.

**Southern Ohio Port Authority**  
*Management's Discussion and Analysis*  
For the years Ended December 31, 2012 and 2011  
(Unaudited)

**Table 2**

	<b>Changes in Net Position</b>				
	<u>2012</u>	<u>2011</u>	<u>2012/2011 Change</u>	<u>2010</u>	<u>2011/2010 Change</u>
<b>Revenues</b>					
<i>Operating Revenues:</i>					
Intergovernmental	\$ 9,275	\$ 1,891,694	\$ (1,882,419)	\$ 416,152	\$ 1,475,542
Program revenue	155,006	192,455	(37,449)	5,158	187,297
Total operating revenues	<u>164,281</u>	<u>2,084,149</u>	<u>(1,919,868)</u>	<u>421,310</u>	<u>1,662,839</u>
<i>Non-operating revenues:</i>					
Interest Income	245	539	(294)	602	(63)
Property sales	650,000	-	650,000	-	-
Total Non-operating revenues	<u>650,245</u>	<u>539</u>	<u>649,706</u>	<u>602</u>	<u>(63)</u>
<b>Total revenues</b>	<b>\$ 814,526</b>	<b>\$ 2,084,688</b>	<b>\$ (1,270,162)</b>	<b>\$ 421,912</b>	<b>\$ 1,662,776</b>
<b>Expenses</b>					
<i>Operating Expenses:</i>					
Administrative	\$ 5,105	\$ 5,412	\$ (307)	\$ 8,481	\$ (3,069)
Material & Supplies	3,276	6,462	(3,186)	614	5,848
Contractual Services	1,330,763	1,135,821	194,942	440,158	695,663
Professional Fees	19,021	56,431	(37,410)	36,956	19,475
Total Operating Expenses	<u>1,358,165</u>	<u>1,204,126</u>	<u>154,039</u>	<u>486,209</u>	<u>717,917</u>
<i>Non-operating expenses:</i>					
Interest Expense	3,953	3,705	248	-	3,705
Property Cost	1,062,849	-	1,062,849	-	-
Total Non-operating expenses	<u>1,066,802</u>	<u>3,705</u>	<u>1,063,097</u>	<u>-</u>	<u>3,705</u>
Total expenses	2,424,967	1,207,831	1,217,136	486,209	721,622
Change in Net Position	(1,610,441)	876,857	(2,487,298)	(64,297)	941,154
Beginning Net Position	<u>2,570,129</u>	<u>1,693,272</u>	<u>(150,071)</u>	<u>1,757,569</u>	<u>(64,297)</u>
Ending Net Position	<u>\$ 959,688</u>	<u>\$ 2,570,129</u>	<u>\$ (1,610,441)</u>	<u>\$ 1,693,272</u>	<u>\$ 876,857</u>

The decrease in total revenues between 2011 and 2012 was due to a decrease in intergovernmental revenue as there were no new grants in 2012. The increase in total expenses between 2011 and 2012 was due largely to the loss on the sale of property held for resale shown in non-operating expenses.

The increase in total revenues between 2010 and 2011 was due largely to increases in federal grants that was awarded to the Port Authority. The increase in total expenses between 2010 and 2011 was due largely to the increase in the amount of federal and state grants that was awarded to the Port Authority during the year.

**Southern Ohio Port Authority**  
*Management's Discussion and Analysis*  
*For the years Ended December 31, 2012 and 2011*  
*(Unaudited)*

**Capital Assets**

At December 31, 2012 and 2011, the capital assets of the Authority consisted of land held for resale. Balances were \$1,038,104 and \$2,064,719 at December 31, 2012 and 2011, respectively. See Note 3 of the notes to the basic financial statements for more detailed information on the Authority's capital assets.

**Debt Administration**

The Authority finances construction in progress primarily through the issuance of notes. At December 31, 2012 and 2011, debt outstanding was \$145,234 and \$659,000, respectively. See Note 4 of the notes to the basic financial statements for more detailed information on the Authority's debt obligations.

**Request for Information**

This financial report is designed to provide a general overview of the Port Authority's finances and to show the Port Authority's accountability for the money it receives, spends, and invests. Questions concerning any of the information provided in this report or requests for additional information should be directed to William Thacker, Commissioner, 433 Third Street, P.O. Box 1525, Portsmouth, Ohio 45662.

**SOUTHERN OHIO PORT AUTHORITY**

**STATEMENT OF NET POSITION**

**DECEMBER 31, 2012 AND 2011**

<b>ASSETS</b>	2012	2011
Current assets		
Cash	\$ 72,266	\$ 3,482
Grants receivable	-	1,026,928
Loans receivable	124,000	134,000
Total current assets	<u>196,266</u>	<u>1,164,410</u>
Property held for resale	<u>1,038,104</u>	<u>2,064,719</u>
Total assets	<u><u>\$ 1,234,370</u></u>	<u><u>\$ 3,229,129</u></u>
<b>LIABILITIES AND FUND BALANCES</b>		
Current liabilities		
Accounts payable	\$ 129,448	\$ -
Line of credit-bank	-	100,000
Total current liabilities	<u>129,448</u>	<u>100,000</u>
Noncurrent liabilities		
Notes payable net of current portion	<u>145,234</u>	<u>559,000</u>
Total liabilities	<u>274,682</u>	<u>659,000</u>
Net position		
Invested in capital assets, net of related debt	892,870	1,505,719
Unrestricted	66,818	1,064,410
Total net position	<u>959,688</u>	<u>2,570,129</u>
Total Liabilities and net position	<u><u>\$ 1,234,370</u></u>	<u><u>\$ 3,229,129</u></u>

See accompanying Notes to the Financial Statements

**SOUTHERN OHIO PORT AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

**FOR THE YEARS ENDING DECEMBER 31, 2012 AND 2011**

	2012	2011
<b>REVENUES</b>		
Intergovernmental	\$ 9,275	\$ 1,891,694
Program revenue	<u>155,006</u>	<u>192,455</u>
Total operating revenues	<u>164,281</u>	<u>2,084,149</u>
 <b>EXPENSES</b>		
Administration	5,105	5,412
Materials and supplies	3,276	6,462
Contractual services	1,330,763	1,135,821
Professional fees	<u>19,021</u>	<u>56,431</u>
Total operating expenses	<u>1,358,165</u>	<u>1,204,126</u>
 Operating income(loss)	 (1,193,884)	 880,023
 Nonoperating revenues (expenses)		
Interest expense	(3,953)	(3,705)
Interest revenue	245	539
Property sales	650,000	-
Property cost	<u>(1,062,849)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(416,557)</u>	<u>(3,166)</u>
 Change in net position	 (1,610,441)	 876,857
 Net position-beginning	 <u>2,570,129</u>	 <u>1,693,272</u>
 Net position-ending	 <u>\$ 959,688</u>	 <u>\$ 2,570,129</u>

See accompanying Notes to the Financial Statements

**SOUTHERN OHIO PORT AUTHORITY**

**STATEMENT OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

	<b>2012</b>	<b>2011</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		
<i>Cash flows from operating activities:</i>		
Cash received from grants	\$ 1,036,203	\$ 864,766
Cash received from other income	155,006	192,455
Cash payments for contractors	(1,201,315)	(1,135,821)
Cash payments for other	(27,402)	(68,305)
	<u>(37,508)</u>	<u>(146,905)</u>
<i>Net cash provided by (used in) operating activities:</i>		
<i>Cash flows from capital and related financing activities:</i>		
Proceeds from sale of property	613,766	-
Proceeds from line of credit	-	100,000
Principal paid on debt	(513,766)	-
Interest expense	(3,953)	(3,705)
	<u>96,047</u>	<u>96,295</u>
<i>Net cash provided by (used in) capital and related financing activities:</i>		
<i>Cash flows from investing activities:</i>		
Interest	245	539
Loans payments received from property sales	10,000	50,000
	<u>10,245</u>	<u>50,539</u>
<i>Net cash provided by(used in) investing activities:</i>		
<i>Net increase (decrease) in cash and cash equivalents:</i>	<u>68,784</u>	<u>(71)</u>
<i>Cash and cash equivalents at beginning of year</i>	<u>3,482</u>	<u>3,553</u>
<i>Cash and cash equivalents at end of year</i>	<u>\$ 72,266</u>	<u>\$ 3,482</u>

See accompanying Notes to the Financial Statements

**SOUTHERN OHIO PORT AUTHORITY**

**STATEMENT OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**

RECONCILIATION OF EXCESS OF REVENUES OVER EXPENSES TO NET CASH USED BY OPERATING ACTIVITIES	2012	2011
Operating income (loss)	<u>\$ (1,193,884)</u>	<u>\$ 880,023</u>
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Decrease (increase) in:		
Grants receivable	1,026,928	(185,504)
Loans receivable	-	-
(Decrease) increase in:		
Accounts payable	129,448	-
Deferred revenue	-	(841,424)
Total adjustments	<u>1,156,376</u>	<u>(1,026,928)</u>
Net cash provided by operating activities	<u>\$ (37,508)</u>	<u>\$ (146,905)</u>

See accompanying Notes to the Financial Statements

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Southern Ohio Port Authority (the Port Authority) is presented to assist in understanding the entity's financial statements. The financial statements and notes are representations of the entity's management and board who are responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles for governmental agencies including those principles prescribed by the Governmental Accounting Standard Board (GASB), the American Institute of Certified Public Accountants in the Publication entitled Audits of States, Local Governments, and Not-For-Profit Organizations Receiving Federal Awards and by the Financial Accounting Standards Board (FASB), when applicable. The above policies have been consistently applied in the preparation of the financial statements.

**A. Reporting Entity**

The Southern Ohio Port Authority, Scioto County, is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio pursuant to the authority of Section 4582.02 of the Ohio Revised Code. The Port Authority is governed by a nine member Board of Directors. Members of the Board are appointed by the Scioto County Commissioners. The purpose of the Port Authority is to be involved in the activities that enhance foster, aid, provide, or promote transportation, economic development, housing, recreation, education, governmental operations, culture, or research within Scioto County.

The Port Authority is statutorily created as a separate and distinct political subdivision of the State. The Authority is governed by a nine member Board of Trustees appointed by the Scioto County Commissioners. Scioto County Commissioners 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 Board of Directors. Scioto County maintains its own accounting functions, is a separate reporting entity, and its financial activity is not included within the financial statements of the Port Authority.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the Port Authority consists of its general operation fund.

Component units are legally separate organizations for which the Port Authority is financially accountable. The Port Authority is financially accountable for an organization if the Port Authority appoints a voting majority of the organization's governing board and (1) the Port Authority is able to significantly influence the programs or services performed or provided by the organizations, or (2) the Port Authority is legally entitled to or can otherwise access the organization's resources; the Port Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits or to provide financial support to the organizations; or the Port Authority is obligated for the debt of the organization. Component units also include organizations that are fiscally dependent of the Port Authority if the Port Authority approves the budget, the issuance of debt, or the levying of taxes. The Port Authority has no component units.

The Port Authority's management believes these financial statements present all activities for which the Port Authority is financially accountable. The Port Authority was formed on September 22, 1983.

**B. Basis of Accounting**

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 of establishing governmental accounting and financial reporting principles. The Port Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, provided they do not conflict with or contradict GASB pronouncements.

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

The Port Authority's financial statements consist of a statement of net position, a statement of revenue, expenses and changes in net position, and a statement of cash flows.

The Port Authority uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net position, financial position, and cash flows. An Enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

**C. Measurement Focus**

The enterprise fund is accounted for on a flow of economic resource measurement focus. All assets and all liabilities associated with the operation of the Port Authority are included on the Statement of Net Position. The Statement of Revenues, Expenses, and Changes in Fund Net Position presents increases (i.e, revenues) and decreases (i.e, expenses) in net total position. The statement of cash flows provides information about how the Port Authority finances and meets the cash flow needs of its enterprise activity.

**D. Fund Accounting**

The Port Authority maintains an Enterprise Fund, a proprietary fund type, which is the general operating fund and is used to account for all financial resources of the Port Authority. This fund is used to account for operations that are similar to private business enterprises where management intends that the significant costs of providing certain goods or services will be recovered through user charges.

**E. Budgetary Process**

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

**F. Capital Assets**

Capital assets utilized by the Port Authority are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are reported at their fair market values as of the date received. The Port Authority maintains a capitalization threshold of five hundred dollars. Improvements are capitalized, the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend and asset's life are not.

**G. Net Position**

Net position represents the difference between assets and liabilities. Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Port Authority or 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 are available. The Port Authority did not have any restricted net position for 2012 and 2011.

**H. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from primary activities. For the Port Authority, these revenues are rental income and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Port Authority.

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

**I. Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2 – CASH**

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 Board of Trustees 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.

Interim deposits represent interim monies that 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 account including passbook accounts. Interim monies can be deposited or invested in the following securities:

1. Notes, bill, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in item (1) and (2) of this footnote and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions.
7. The State Treasurer's investment pool (STAR Ohio)
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value;

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio;  
and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's average portfolio.

Protection of the 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 Authority 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.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. Investments must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity.

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

**Deposits:**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy for deposits is any balance not covered by depository insurance will be collateralized by the financial institutions with pledged securities. The District is required to categorize deposits and investments according to GASB Statement No. 3 *Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements*. At year-end 2012 and 2011, the carrying amount of the Port Authority's deposits was \$72,266 and \$3,482, respectively. The bank balance of the Port Authority's deposits at December 31, 2012 and 2011 was \$72,266 and \$23,337, respectively. Of the bank balance at year end 2012 and 2011, \$72,266 and \$23,337, respectively was covered by federal depository insurance.

**NOTE 3 – CAPITAL ASSETS**

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

	<b>Balance at 12/31/2011</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 12/31/2012</b>
Land held for resale	\$2,064,719	\$ -	\$ 1,026,615	\$ 1,038,104
Total	<u>\$2,064,719</u>	<u>\$ -</u>	<u>\$ 1,026,615</u>	<u>\$ 1,038,104</u>

Capital asset activity for the fiscal year ended December 31, 2011 was as follows:

	<b>Balance at 12/31/2010</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at 12/31/2011</b>
Land held for resale	\$2,064,719	\$ -	\$ -	\$ 2,064,719
Total	<u>\$2,064,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,064,719</u>

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

**NOTE 4 – NOTES PAYABLE**

Changes in note obligations of the Port Authority during the year ended December 31, 2012 consisted of the following:

	<u>Balance at 12/31/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2012</u>	<u>Due Within One Year</u>
Village of New Boston	\$50,000	\$ -	\$ -	\$50,000	\$ -
Scioto County	509,000	-	413,766	95,234	-
DESCO Note	100,000	-	100,000	-	-
Total	<u>\$659,000</u>	<u>\$ -</u>	<u>\$ 513,766</u>	<u>\$145,234</u>	<u>\$ -</u>

Changes in note obligations of the Port Authority during the year ended December 31, 2011 consisted of the following:

	<u>Balance at 12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2011</u>	<u>Due Within One Year</u>
Village of New Boston	\$50,000	\$ -	\$ -	\$50,000	\$ -
Scioto County	509,000	-	-	509,000	-
DESCO Note	-	100,000	-	100,000	100,000
Total	<u>\$559,000</u>	<u>\$ 100,000</u>	<u>\$ -</u>	<u>\$659,000</u>	<u>\$ 100,000</u>

Village of New Boston note is unsecured with payment due on demand with 0% interest.

Scioto County note is secured by real estate and payment is due on demand of sale of real estate.

To assist private sector in acquiring and constructing facilities deemed to be in the public interest, the Port Authority issued \$10 million in industrial revenue bonds on May 8, 2008. Mortgages on the facilities secure the bonds. The bonds are payable solely from payments received on the underlying mortgage loans. The Port Authority, the State, or any other political subdivision is not obligated in any manner for paying the bonds, which are not reflected in the debt schedule above. The amount of the outstanding debt at December 31, 2012 is \$9,015,881.

**NOTE 5 – RELATED PARTY TRANSACTIONS**

The Port Authority owes \$95,234 to Scioto County at December 31, 2012. The Port Authority is a related organization of Scioto County.

The Port Authority owes J&H Erectors for contract work performed noted on the financial statements as accounts payable. Additionally, Donald Hadsell, owner of J&H Erectors owes the Port Authority for a loan received from the Port Authority in 2007, noted on the financial statements as Loans Receivable.

**NOTE 6 – CONCENTRATION OF CREDIT RISK**

The Port Authority's primary assets consist of land, buildings, rail facilities and river dock located in Portsmouth, Ohio. The Port Authority's primary source of income has been state and federal grants used in the remedial development of Brownfield industrial property that is ultimately sold at fair market value. The purpose of The Port Authority's sale of industrial property is to promote the creation of industrial related jobs in Scioto County and property sales are typically made at below cost. The Port Authority has been totally dependent on state and federal funds for its continued existence.

**Southern Ohio Port Authority**  
**Notes to the Financial Statements**  
**For the Years Ended December 31, 2012 and 2011**

**NOTE 7 – CONTINGENCIES**

**Environmental:**

The Port Authority has no known outstanding environmental issues as of the date of this report. The Port Authority has an agreement with Ohio EPA in which the Port Authority performs environmental inspections and corrects resulting problems on Brownfield property at the time title is transferred to a prospective buyer in return for the Ohio EPA's covenant not to sue and becoming a part of the deed transferred to the buyer.

**NOTE 8 – SUBSEQUENT EVENTS**

Subsequent to December 31, 2012 the Port Authority has undergone a reorganization of its Board of Trustees resulting in a new management structure with new officers.



# 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

Southern Ohio Port Authority  
Scioto County  
433 Third Street  
PO Box 1525  
Portsmouth, Ohio 45662

To the Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the business-type activities of the Southern Ohio Port Authority, Scioto County, Ohio (the Port Authority), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements and have issued our report thereon dated August 29, 2013.

### ***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 statements, 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.

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 Port 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 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 matter we must report under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2012-01.

***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 29, 2013

**SOUTHERN OHIO PORT AUTHORITY  
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**FINDING NUMBER 2012-01**

**Noncompliance Citation**

Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void.

There are several exceptions to the standard requirement stated above that a fiscal officer's certificate must be obtained prior to a subdivision or taxing authority entering into a contract or order involving the expenditure of money. The main exceptions are: "then and now" certificates, blanket certificates, and super blanket certificates, which are provided for in Sections 5705.41(D)(1) and 5705.41(D)(3), respectively, of the Ohio Revised Code.

**1. "Then and Now" Certificate** – If the fiscal officer can certify that both at the time that the contract or order was made ("then"), and at the time that the fiscal officer is completing the certification ("now"), that sufficient funds were available or in the process of collection, to the credit of a proper fund, properly appropriated and free from any previous encumbrance, the Port Authority can authorize the drawing of a warrant for the payment of the amount due. The Port Authority has thirty days from the receipt of the "then and now" certificate to approve payment by ordinance or resolution.

Amounts of less than \$3,000 may be paid by the fiscal officer without a resolution or ordinance upon completion of the "then and now" certificate, provided that the expenditure is otherwise lawful. This does not eliminate any otherwise applicable requirement for approval of expenditures by the Port Authority.

**2. Blanket Certificate** – Fiscal officers may prepare "blanket" certificates for a certain sum of money not in excess of an amount established by resolution or ordinance adopted by a majority of the members of the legislative authority against any specific line item account over a period not running beyond the end of the current fiscal year. The blanket certificates may, but need not, be limited to a specific vendor. Only one blanket certificate may be outstanding at one particular time for any one particular line item appropriation.

**3. Super Blanket Certificate** – The Port Authority may also make expenditures and contracts for any amount from a specific line-item appropriation account in a specified fund upon certification of the fiscal officer for most professional services, fuel, oil, food items, and any other specific recurring and reasonably predictable operating expense. This certification is not to extend beyond the current year. More than one super blanket certificate may be outstanding at a particular time for any line item appropriation.

The Port Authority did not certify the availability of funds prior to making commitments. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances.

**SOUTHERN OHIO PORT AUTHORITY  
SCIOTO COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2012 AND 2011  
(Continued)**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)</b>
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**FINDING NUMBER 2012-01 (Continued)**

**Noncompliance Citation – Ohio Rev. Code Section 5705.41(D)(1) (Continued)**

Unless the exceptions noted above are used, prior certification is not only required by statute but is a key control in the disbursement process to assure that purchase commitments receive prior approval. To improve controls over disbursements and to help reduce the possibility of the Port Authority's funds exceeding budgetary spending limitations, we recommend that the Fiscal Officer certify that the funds are or will be available prior to obligation by the Port Authority. When prior certification is not possible, "then and now" certification should be used.

We recommend the Port Authority certify purchases to which Section 5705.41(D) applies. The most convenient certification method is to use purchase orders that include the certification language Section 5705.41(D) requires to authorize disbursements. The Fiscal Officer should sign the certification at the time the Port Authority incurs a commitment, and only when the requirements of Section 5705.41(D) are satisfied. The Fiscal Officer should post approved purchase commitments to the proper appropriation code, to reduce the available appropriation.

**Officials' Response:**

The finding states: "Ohio Rev. Code Section 5705.41(D)(1) prohibits a subdivision or taxing entity from making any contract or ordering any expenditure of money unless a certificate signed by the fiscal officer is attached thereto. The fiscal officer must certify that the amount required to meet any such contract or expenditure has been lawfully appropriated and is in the treasury, or is in the process of collection to the credit of an appropriate fund free from any previous encumbrance. Further, contracts and orders for expenditures lacking prior certification shall be null and void". It further states: "The Port Authority did not certify the availability of funds prior to making commitments. Failure to properly certify the availability of funds can result in overspending funds and negative cash fund balances".

Although we were not aware of the requirement we concur that the relevant ORC section covers SOPA as a subdivision of the Scioto County Board of Commissioners and that the certifications required were not performed. SOPA was not structured in the traditional manner of most government entities in that it has no paid administrative staff. It instead has operated exclusively as a volunteer organization. At its inception in the early 1990s, the SOPA board made the decision that it would forego a formal administrative capacity and apply all available resources to its efforts to revitalize the area economy. In 1995 the Community Action Organization of Scioto County accepted, at no cost to SOPA, responsibility for bookkeeping, fiscal reporting to funding sources, maintenance of records and other administrative functions. This arrangement did not result in SOPA having an official Fiscal Officer per se. Had there been, we may have been alerted to the need for the certifications referred to above.

It should be noted that at no time, to my knowledge had expenditures been made or obligated prior to sufficient and appropriate funds being available.

SOPA is in the process of changing its administrative model and hopes to have a full time administrative staff in place as early as September 2013. All administrative functions will be transferred to that staff at that time.

Beginning immediately SOPA will adopt all recommendations included in the auditor's schedule of findings and conform to the requirements of ORC Section 5705.41(D)(1).



# Dave Yost • Auditor of State

**SOUTHERN OHIO PORT AUTHORITY**

**SCIOTO 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  
SEPTEMBER 12, 2013**