



**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

SINGLE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2003



**Auditor of State
Betty Montgomery**

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report	1
Management's Discussion and Analysis	3
Statement of Net Assets – Proprietary Fund – For the Year Ended December 31, 2003	9
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Fund For the Year Ended December 31, 2003	10
Statement of Cash Flows – Proprietary Fund – For the Year Ended December 31, 2003.....	11
Notes to the Basic Financial Statements.....	13
Schedule of Federal Awards Receipts and Expenditures	21
Notes to the Schedule of Federal Awards Receipts and Expenditures.....	22
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	23
Independent Accountants' Report on Compliance with Requirements Applicable to the Major Federal Programs and Internal Control over Compliance in Accordance with OMB Circular A-133	25
Schedule of Findings.....	27

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Lorain County Regional Airport Authority
Lorain County
44050 Russia Road
Elyria, Ohio 44035

To the Board of Trustees:

We have audited the accompanying financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport) a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Regional Airport Authority, Lorain County, Ohio, a component unit of Lorain County, Ohio, as of December 31, 2003, and the changes in its financial position and its cash flows for the Proprietary Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2004, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

We conducted our audit to form an opinion on the financial statements that collectively comprise the Airport's basic financial statements. The schedule of federal awards receipts and expenditures is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected this information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

May 7, 2004

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

The discussion and analysis of the Lorain County Regional Airport Authority's (the Airport) financial performance provides an overview of the Airport's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the Airport's financial performance as a whole. Readers are encouraged to consider information presented here as well as the basic financial statements to enhance their understanding of the Airport's financial performance.

FINANCIAL HIGHLIGHTS

The Airport's net assets increased by \$2,299,455 in 2003. This was mainly due to the receipt of capital grants from the Federal Aviation Administration (FAA) and the Ohio Department of Transportation, Division of Aviation (State).

Operating revenues decreased by \$94,227 and operating expenses decreased by \$122,472, due mainly to the transfer of the Fixed Base Operator (FBO) operation to Johnston Aviation Company in October, 2003.

Non-operating revenues decreased by \$227,924 as a result of a decrease in contributions of \$224,265 from the previous year by Lorain County.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets provide information about the activities of the Airport and present a long-term view of the Airport's finances.

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Airport's finances is, "Is the Airport better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Airport and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. The Airport charges a fee to customers to help it cover part of the services it provides. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Airport's net assets and changes in them. You can think of the Airport's net assets—the difference between assets and liabilities—as one way to measure the Airport's financial health, or financial position. Over time, increases or decreases in the Airport's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors (e.g. fuel prices, FAA regulations, weather, etc.), to assess the overall health of the Airport.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Table 1 provides a summary of the Airport's net assets for 2003 compared to 2002.

Table 1

NET ASSETS

	<u>2003</u>	<u>2002</u>
ASSETS:		
Current and other assets	\$ 1,450,409	\$ 425,043
Capital assets, net	<u>8,012,539</u>	<u>5,785,137</u>
Total assets	9,462,948	6,210,180
LIABILITIES:		
Current liabilities	1,079,658	123,187
Long-term liabilities	<u>16,694</u>	<u>19,852</u>
Total liabilities	1,096,352	143,039
NET ASSETS:		
Invested in capital assets, net of related debt	8,012,539	5,785,137
Restricted for other purposes	354,057	121,185
Unrestricted	<u>0</u>	<u>160,819</u>
TOTAL NET ASSETS	\$ <u>8,366,596</u>	\$ <u>6,067,141</u>

Total assets increased by \$3,252,768 from 2002 to 2003. The majority of the increase resulted from an increase in capital projects in process of \$2,091,813.

Total liabilities increased by \$953,313. The majority of this increase is in accounts payable on capital projects in process.

Total net assets increased by \$2,299,455. The majority of the increase resulted from an increase in capital projects in process.

The largest portion of the Airport's net assets each year is its investment in capital assets, net of related debt (e.g., land, land improvements, buildings, equipment and vehicles). The Airport uses these capital assets to provide services to the businesses and public using the Lorain County Regional Airport.

Capital Assets:

Land	\$ 2,153,589
Construction in progress	2,091,813
Land improvements	5,227,789
Buildings	1,091,584
Equipment	476,233
Vehicles	<u>193,908</u>
Capital Assets	11,234,916
Less accumulated depreciation	<u>(3,222,377)</u>
Total Capital Assets, Net	\$ <u>8,012,539</u>

See Notes 2 and 4 to the financial statements for further discussion of the Airport's capital asset policy and changes in capital assets.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Tables 2 and 3 show the revenues, expenses, and the changes in net assets for the year ended December 31, 2003 compared to the year ended December 31, 2002.

Table 2

REVENUES

	2003**	2002
OPERATING REVENUES		
Charges for Services Revenue:		
Aviation fuel & oil income	\$ 353,431	\$ 401,773
Rentals and freight	272,415	327,409
Landing fees	8,457	10,047
Other operating revenues	<u>30,697</u>	<u>19,998</u>
Total operating revenues	<u>665,000</u>	<u>759,227</u>
NON-OPERATING REVENUES		
Operating Grants	300,000	524,265
Land rentals	27,240	27,040
Interest Income	2,852	6,711
Miscellaneous Income	<u>1,350</u>	<u>1,350</u>
Total non-operating revenue	<u>331,442</u>	<u>559,366</u>
CAPITAL CONTRIBUTIONS	<u>2,661,620</u>	<u>381,659</u>
TOTAL REVENUES AND CAPITAL CONTRIBUTIONS	<u>\$3,658,062</u>	<u>\$1,700,252</u>

(**Operating revenues decreased by \$94,227 due mainly to the transfer of the FBO operation to Johnston Aviation Company in October, 2003.)

- Ground rental and use fees include annual increases. The increases are based upon a function of the Consumer Price Index. The Fixed Base Operator (FBO) was not assessed for the increase in 2003.
- Historically, Airport expenses exceed revenues. The County subsidizes the Airport's operating shortfall. The subsidy by the County for 2003 was \$300,000.
- Capital contributions consisted of grants from the County, the State and the FAA. Grant monies were received for the Airport's Master Plan and Airport Layout Plan (ALP) update, runway and safety area rehabilitation, taxiway improvements, and Industrial Park Development.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

Table 3

EXPENSES

	2003**	2002
OPERATING EXPENSES		
Salaries and employee benefits	\$511,285	\$670,356
Depreciation	212,267	207,698
Aviation and fuel oil	214,626	220,883
Professional & Specialized Services	46,297	49,414
Utilities	90,927	88,467
Repairs and Maintenance	57,219	99,933
Other Operating Expenses	<u>215,871</u>	<u>134,213</u>
Total Operating Expenses	1,348,492	1,470,964
NON-OPERATING EXPENSES		
Miscellaneous expense	<u>10,115</u>	<u>2,135</u>
TOTAL EXPENSES	<u>1,358,607</u>	<u>1,473,099</u>
INCREASE IN NET ASSETS	<u>\$2,299,455</u>	<u>\$ 227,153</u>

(**Operating expenses decreased by \$122,472 due mainly to the transfer of the FBO operation to Johnston Aviation Company in October, 2003.)

- Administration and maintenance of the Airport falls under the direction of its Executive Director (Director) and staff.
- Capital assets are being depreciated using the straight-line method over the estimated useful life of the assets. Annual inspections are performed to evaluate the condition of the assets and the reasonableness of the recorded value.
- All other expenses have remained steady, with no unexpected increases.

OPERATIONAL HIGHLIGHTS

- Utility infrastructure work for the Airport Industrial Park that was started in 2002 was completed in 2003. The Industrial Park is part of the Airport's overall plan to bring aviation related businesses to Lorain County, and is expected to be fully completed and available for business development in 2004.
- The Airport completed the design and implementation phase of improvements to its Runway 7/25 safety area at a cost of \$1,447,795. The Airport received a grant from the FAA for 90% of the cost. The remaining 10% was a local matching share provided by the County. The project included improvement of the land encompassing the Airport's runway safety area to meet FAA minimum standards and upgrades to the Airport's navigational aides.
- Resurfacing of Taxiway C-West was completed in November, 2003. This project was funded by the State at a total cost of \$46,346.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2003
(UNAUDITED)**

FIXED BASE OPERATION (FBO)

On May 19, 1999, the Airport entered into a month-to-month agreement with the County to operate the County owned Fixed Base Operation (FBO). The County held title to the FBO Assets and FBO staff members were employees of the Airport.

The County transferred the assets of the FBO to the Airport on August 31, 2003. Furthermore, the County also transferred all lease rights, contract rights, any other rights, and assumption of obligations to the Airport. As a consequence of this, the Airport recognized a non-cash contribution of \$862,370 in buildings and equipment.

Subsequently, in October 2003, the Airport entered into a Lease By Way Of Concession Agreement with Johnston Aviation Company (Johnston) to operate the Fixed Base Operation on behalf of the Airport. The term of the agreement is ten (10) years, with two (2) separate additional five-year terms. Johnston has agreed to pay the Airport a base rent of 4% of its annual Gross Revenues derived from the sale of goods and services or a guaranteed minimum rent (GMR) for each year of the term. In addition, the Airport will also receive revenue from aircraft sales, fuel sales, aircraft landing fees, and aircraft tie downs.

At the time of the agreement, Johnston also agreed to purchase certain assets from the Airport, including but not limited to, two fuel trucks, office and maintenance equipment, and fuel inventory on-hand. Proceeds from the sale of these assets (excluding the fuel inventory) were \$203,725.

FUTURE OUTLOOK

The Airport expects to receive a grant from the FAA (95%) and a County local matching share (5%) to fund several projects in 2004. Estimated total project cost is \$3,400,000. These projects include the following:

- Completion of the rehabilitation of Runway 7/25 and safety area improvement project. This work will include milling and resurfacing of the runway pavement.
- Expanding and repaving of the Airport's aircraft tie-down apron, and installation of a deicing pad and catch basins.
- Installation of a perimeter fence to mitigate wildlife from the Airport premises.
- Purchase of snow removal equipment.

The Airport submitted an initial operating budget subsidy request to the County in the amount of \$425,000 for the year ended December 31, 2004. After consideration, the County approved an operating subsidy of \$403,000. The approved budget was 34 percent over the 2003 operating subsidy of \$300,000 provided by the County.

CONTACTING THE AIRPORT'S FINANCIAL MANAGEMENT

This financial report is designed to provide Lorain County citizens, taxpayers, airport users, and all interested parties with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Airport's Executive Director, Michael Barth, at the Lorain County Regional Airport Authority, 44050 Russia Road, Elyria, Ohio 44035.

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**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

**Statement of Net Assets - Proprietary Fund
For The Year Ended December 31, 2003**

ASSETS

Current Assets:

Cash and cash equivalents	\$ 500,732
Accounts receivable	80,175
Grants receivable	855,775
Prepaid expenses	<u>13,727</u>
Total Current Assets	<u>1,450,409</u>

Non-Current Assets:

Capital assets:	
Nondepreciable capital assets	4,245,402
Depreciable capital assets, net	<u>3,767,137</u>
Total non-current assets	<u>8,012,539</u>

Total Assets \$ 9,462,948

LIABILITIES

Current Liabilities:

Accounts payable	\$ 981,771
Accrued expenses	34,378
Compensated absences	39,225
Deferred revenue	<u>24,284</u>
Total current liabilities	<u>1,079,658</u>

Non-Current Liabilities:

Compensated absences	<u>16,694</u>
Total non-current liabilities	<u>16,694</u>

Total Liabilities 1,096,352

NET ASSETS

Invested in capital assets, net of related debt	8,012,539
Restricted for other purposes	<u>354,057</u>
Total net assets	<u>8,366,596</u>

Total Liabilities and Net Assets \$ 9,462,948

See accompanying notes to the basic financial statements.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

**Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For The Year Ended December 31, 2003**

OPERATING REVENUES	
Charges for services	\$ 634,303
Other operating income	30,697
Total operating revenues	<u>665,000</u>
OPERATING EXPENSES	
Salaries and employee benefits	511,285
Depreciation	212,267
Aviation fuel and oil	214,626
Professional and specialized services	46,297
Utilities	90,927
Repairs and maintenance	57,219
Other supplies and expenses	215,871
Total Expenses	<u>1,348,492</u>
Operating loss	<u>(683,492)</u>
NON-OPERATING REVENUES (EXPENSES)	
Operating grants	300,000
Land rentals	27,240
Interest income	2,852
Miscellaneous income	1,350
Miscellaneous expense	(10,115)
Total non-operating revenues (expenses)	<u>321,327</u>
Loss before capital contributions	<u>(362,165)</u>
CAPITAL CONTRIBUTIONS	<u>2,661,620</u>
NET ASSETS	
Increase (decrease) in Net Assets	2,299,455
Total Net Assets, beginning of year	<u>6,067,141</u>
Total Net Assets, end of year	<u><u>\$ 8,366,596</u></u>

See accompanying notes to the basic financial statements.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

**Statement of Cash Flows - Proprietary Fund
For The Year Ended December 31, 2003**

CASH FLOWS FROM

OPERATING ACTIVITIES

Receipts from customers	\$ 632,412
Payment for employee services and benefits	(515,992)
Payment to suppliers for goods and services	(196,232)
Other receipts (payments)	<u>(402,264)</u>
Net cash used for operating activities	<u>(482,076)</u>

CASH FLOWS FROM NON CAPITAL

FINANCING ACTIVITIES

Operating grants	<u>300,000</u>
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CASH FLOWS FROM CAPITAL AND

RELATED FINANCING ACTIVITIES

Capital contributions	1,799,251
Proceeds from sale of capital assets	203,725
Acquisition of capital assets	(1,791,264)
Increase in grants receivable	(855,775)
Increase in construction accounts payable	961,103
Other receipts	<u>28,714</u>
Net cash provided by capital and related financing activities	<u>345,754</u>

CASH FLOWS FROM INVESTING

ACTIVITIES

Interest	<u>2,852</u>
Net cash provided by investing activities	<u>2,852</u>
Net increase in cash and cash equivalents	166,530

Cash and cash equivalents - beginning of year	<u>334,202</u>
Cash and cash equivalents - end of year	<u><u>500,732</u></u>

**RECONCILIATION OF OPERATING
(LOSS) TO NET CASH (USED) BY
OPERATING ACTIVITIES**

Operating (loss)	(683,492)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	212,267
Change in assets and liabilities:	
Receivables	(26,149)
Inventories	18,394
Prepaid insurance	4,694
Accounts and other payables	(3,572)
Accrued expenses	<u>(4,218)</u>
Net cash used for operating activities	<u><u>\$ (482,076)</u></u>

See accompanying notes to the basic financial statements.

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**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003**

Note 1. Reporting Entity

The Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport) was established pursuant to Ohio Revised Code Section 308.03 by resolution of the Lorain County Commissioners. The Airport is governed by a nine member Board of Trustees (Board), all of whom are appointed by the Lorain County Commissioners. The Board has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name, the power to establish and collect rates, rentals and other charges, the authority to acquire, construct, operate, manage and maintain airport facilities, the authority to buy and sell real and personal property, and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Lorain County has contributed money to the Airport to continue operations. Since the Airport imposes a financial burden on the County, the Airport is reported as a component unit of Lorain County.

The reporting entity for the Airport is comprised of all departments, boards and agencies that are not legally separate from the Airport, any component units of the Airport and any other organizations that would need to be included to ensure that the financial statements of the Airport are not misleading.

Component units are legally separate organizations for which the Airport is financially accountable. The Airport is financially accountable for an organization if the Airport appoints a voting majority of the organization's governing board and (1) the Airport is able to significantly influence the programs or services performed or provided by the organization; or (2) the Airport is legally entitled to or can otherwise access the organization's resources; the Airport is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or the Airport is obligated for the debt of the organization. Based on the application of these criteria, the Airport has no component units.

Note 2. Summary of Significant Accounting Policies

The financial statements of the Airport have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Airport also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Airport's accounting policies are described below.

Basis of Presentation

The Airport's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Airport 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 assets, 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.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 2. Summary of Significant Accounting Policies (Continued)

Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the Airport are included on the statement of net assets. The statement of changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the Airport finances and meets the cash flow needs of its enterprise activity.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The Airport's financial statements are prepared using the accrual basis of accounting.

Revenue is recorded on the accrual basis when the exchange takes place. Expenses are recognized at the time they are incurred.

Estimates

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

Cash and cash equivalents

For purposes of the statement of cash flows, the Airport considers all highly liquid investments with a maturity of three months or less (demand deposits with banks) to be cash equivalents. During 2003, Airport investments were limited to interest bearing deposit accounts.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the Airport, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Airport's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At year end the airport had \$354,057 in restricted net assets for other purposes.

Operating revenues and expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services and other operating income. Operating expenses are the necessary costs incurred to provide the goods or services that are the primary activity of the Airport. Revenues and expenses not meeting these definitions are reported as non-operating.

Grants

Grants received for the acquisition or construction of capital assets, are recorded as capital contributions when earned. Grants are earned when costs relating to such capital assets, which are reimbursable under the terms of the grants, have been incurred.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Note 2. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, including infrastructure assets, purchased or constructed by the Airport are recorded at original cost. Land improvements, buildings, equipment and vehicles are depreciated using the straight-line method over the estimated useful lives of the assets. A useful life of 40 years is used for land improvements and buildings, and 5 to 15 years is used for equipment and vehicles.

Costs and related accumulated depreciation of capital assets sold or otherwise retired are removed from the accounts, and gains or losses on disposition are credited to or charged against income.

Routine maintenance, repairs, renewals, and replacement costs are charged against income. Expenditures which materially increase values or extend useful lives are capitalized.

The Airport's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project, and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2003, no interest costs were incurred on construction projects for the Airport.

Note 3. Deposits

The Ohio Revised Code classifies monies held by the Airport into three categories.

- a) Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Airport treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.
- b) Inactive deposits are public deposits that Board 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.
- c) Interim deposits are deposits of interim monies. Interim monies are those monies, which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including, but not limited to, passbook accounts.

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

1. U.S. Treasury Notes, Bills, Bonds, or any other obligation or security issued by the U.S. Treasury or any other obligation guaranteed as to principal and interest by the U.S. Treasury;
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;

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 3. Deposits (Continued)

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds 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 obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

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. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Airport, 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 Airport or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

Protection of the Airport's deposits is provided by the Federal Deposit Insurance Corporation (FDIC) and by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

At year-end, the carrying amount of the Airport's deposits was \$500,732 (which includes petty cash of \$300) and the bank balance was \$491,649. Of the bank balance, \$100,000 was covered by federal depository insurance and \$391,649 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the Airport's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Airport to a successful claim by the FDIC.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" requires the Airport's investments to be categorized to give an indication of the level of risk assumed by the Airport at year-end. Category 1 includes investments that are insured or registered for which securities are held by the Airport or its agent in the Airport's name. Category 2 includes uninsured and unregistered investments which are held by the counter-party's trust department or agent in the Airport's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party, or by its trust department or agent but not in the Airport's name. The Airport had no investments at year-end.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Note 4. Changes in Capital Assets

Capital asset activity for the year ended December 31, 2003 was as follows:

	<u>Balance 12/31/02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/03</u>
Capital Assets, not being depreciated:				
Land	\$2,153,589	-	-	\$2,153,589
Construction in progress	<u>-</u>	<u>\$2,091,813</u>	<u>-</u>	<u>2,091,813</u>
	2,153,589	2,091,813		4,245,402
Capital Assets, being depreciated:				
Land Improvements	5,568,798	30,284	(371,293)	5,227,789
Buildings	270,000	853,555	(31,971)	1,091,584
Equipment	453,125	39,465	(16,357)	476,233
Vehicles	<u>408,309</u>	<u>-</u>	<u>(214,401)</u>	<u>193,908</u>
Total Capital Assets being depreciated	<u>6,700,232</u>	<u>923,304</u>	<u>(634,022)</u>	<u>6,989,514</u>
Less Accumulated Depreciation:				
Land Improvements	(2,501,963)	(137,948)	-	(2,639,911)
Buildings	(98,042)	(23,959)	-	(122,001)
Equipment	(326,797)	(25,473)	5,702	(346,568)
Vehicles	<u>(141,882)</u>	<u>(24,886)</u>	<u>52,871</u>	<u>(113,897)</u>
Total Accumulated Depreciation	<u>(3,068,684)</u>	<u>(212,266)</u>	<u>58,573</u>	<u>(3,222,377)</u>
Capital Assets, Net	<u>\$5,785,137</u>	<u>\$2,802,851</u>	<u>\$(575,449)</u>	<u>\$8,012,539</u>

Note 5. Receivables

In the normal course of operating the Airport, credited is granted to Airport tenants and customers. The Board believes no allowance for receivables doubtful of collection is necessary, and none has been provided.

Note 6. Lease of Premises

Various lease agreements have been entered into for office, hangar, and land rental through December 1, 2018, with options to extend the lease terms. Future base rental income for the leases as of December 31, 2003 is as follows:

2004	60,880
2005	45,834
2006	41,327
2007	41,327
2008	41,327
Thereafter	237,253

A 99 year lease agreement has also been entered into for land rental of three parcels of land totaling 2.7105 acres through the year 2078 and is renewable forever. The lease provides for a base ground rental use of \$7,289 adjusted upward yearly by a function of the Consumer Price Index. For the year ended December 31, 2003 rental income was \$9,073.

Various lease agreements have been entered into for office and hangar space on a month-to-month basis. Rental income from these rentals was \$221,752 for the year ended December 31, 2003.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 7. Compensated Absences

The Airport allows employees to accumulate unused sick leave. This policy provides that upon an employee's death or retirement, the employee shall receive cash payment of one third of the value of his or her legally accrued and unused sick leave, to a maximum of 333 1/3 hours. The sick leave conversion payment shall be based on the average of the employees' base salary rates for the most recent three years. Sick leave benefits are accrued as a liability using the vested method. In December 2002, the Board signed a new employment contract with the Airport Executive Director, which granted him, upon termination, one-third of his accumulated sick leave hours, at his then-current hourly rate, or his accumulated sick leave hours pursuant to the Airport's policy, whichever is greater.

At December 31, 2003 the liability for accrued vacation leave and sick leave is approximately \$55,919.

Note 8. Pension Plan

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

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

For the year ended December 31, 2003, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Airport's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions. The Airport's contribution to OPERS for the years ending December 31, 2003, 2002 and 2001 was \$61,054, \$70,676 and \$74,050 respectively, equal to the required contributions for those years.

Note 9. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in Note 8, OPERS provides post retirement health care coverage, in accordance with the Ohio Revised Code, to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2003 local government employer contribution rate was 13.31 percent of covered payroll; 5.00 percent of covered payroll was the portion that was used to fund health care. For the calendar year 2003, Airport contributions equal to 5.00% of covered payroll was used to fund health care expenses.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)

Note 9. Other Post Employment Benefits (OPEB) (Continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 364,881. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

Note 10. Risk Management

The Airport is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; injury to employees; and natural disasters. Through Lorain County, the Airport is covered under the County Risk Sharing Authority, Inc. (CORSA). CORSA is a risk sharing pool made up of thirty-nine counties in Ohio and was formed as an Ohio nonprofit corporation for the purpose of establishing the CORSA Insurance/Self-Insurance Program, a group of primary and excess insurance/self-insurance and risk management program. CORSA insures the Airport for general liability, errors and omissions, property and automobile. The Airport has purchased commercial insurance for aviation and airport and hangerkeepers liability. The Airport also carries employee health and accident insurance and a bond on key management positions. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Note 11. Contingent Liabilities

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to the grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2003.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003
(Continued)**

Note 12. Non-Cash Contributions

For purposes of the statement of cash flows, the Airport received by way of transfer from Lorain County, Ohio, five buildings located at the Airport with a fair market value of \$852,560, and equipment valued at \$9,810.

Note 13. Fixed Base Operations

During the year the Airport entered into a lease agreement, transferring the operations of the aircraft Fixed Based Operations (FBO) and hangar facility to Johnston Aviation Company. The lease includes use of the premises for the purpose of providing service and accommodation to the air traveling public, aviation fuel sales and service. The lease has a ten-year base term with the option for two additional five-year terms. The base rental equals the greater of 4% of the leases annual gross revenue or a guaranteed minimum rent (\$30,000 per annum in 2003), plus a per gallon fee on fuel and oil sales, 4% of any aircraft sales and various other service charges.

At the time of the agreement, Johnston Aviation Company also agreed to purchase certain assets from the Airport, including but not limited to, two fuel trucks, office and maintenance equipment, and fuel inventory on hand. Proceeds from the sale of these assets (excluding the fuel inventory) were \$203,725.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY**

**SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Expenditures
Direct Program:				
Federal Aviation Administration				
Airport Improvement Program	3-39-0048-1403	20.106	335,657	335,657
	3-39-0048-1302		159,697	159,697
	3-39-0048-1201		37,422	37,422
Total Federal Financial Assistance			<u>\$532,776</u>	<u>\$532,776</u>

The accompanying notes to this schedule are an integral part of this schedule.

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
FOR THE YEAR ENDED DECEMBER 31, 2003**

NOTES TO SCHEDULE OF FEDERAL AWARDS RECEIPTS AND EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Receipts and Expenditures (the Schedule) summarizes activity of the Airport's federal award programs. The schedule has been prepared on the cash basis of accounting.

CFDA – Catalog of Federal Domestic Assistance



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS

Lorain County Regional Airport Authority
Lorain County
44050 Russia Road
Elyria, Ohio 44035

To the Board of Trustees:

We have audited the financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport) a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2003, and have issued our report thereon dated May 7, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Airport's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Airport in a separate letter dated May 7, 2004.

Lorain County Regional Airport Authority
Lorain County
Independent Accountants' Report on Compliance and on
Internal Control Required by *Government Auditing Standards*
Page 2

This report is intended for the information and use of management, the Board of Trustees and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 7, 2004



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Lorain County Regional Airport Authority
Lorain County
44050 Russia Road
Elyria, Ohio 44035

To the Board of Trustees:

Compliance

We have audited the compliance of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport), a component unit of Lorain County, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2003. The Airport's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Airport's management. Our responsibility is to express an opinion on the Airport's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the Airport's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Airport's compliance with those requirements.

In our opinion, the Airport complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003.

Internal Control Over Compliance

The management of the Airport is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Airport's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted a certain matter involving the internal control over compliance that does not require inclusion in this report, that we have reported to management of the Airport in a separate letter dated May 7, 2004.

This report is intended for the information and use of management, the Board of Trustees, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Betty Montgomery
Auditor of State

May 7, 2004

**LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
DECEMBER 31, 2003**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CFDA# 20.106 - Airport Improvement Program
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
DECEMBER 31, 2003

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY

LORAIN 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
JUNE 1, 2004**