HEATH-NEWARK-LICKING COUNTY
PORT AUTHORIY
HEATH, OHIO

BASIC FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003

Auditor of State
Betty Montgomery

Board of Directors
Heath-Newark-Licking County Port Authority
851 Irving-Wick Drive, West
Heath, Ohio 43056-6114

We have reviewed the *Independent Accountant's Report* of the Heath-Newark-Licking County Port Authority, Licking County, prepared by S.R. Snodgrass, A.C., for the audit period January 1, 2003 to December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Heath-Newark-Licking County Port Authority is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 9, 2005

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HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY
HEATH, OHIO

GENERAL PURPOSE
FINANCIAL STATEMENTS

FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2003
HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY
HEATH, OHIO

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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT ACCOUNTANT'S REPORT

To the Board of Directors
Heath-Newark-Licking County Port Authority
Heath, Ohio

We have audited the accompanying general purpose financial statements of the Heath-Newark-Licking County Port Authority as of and for the year ended December 31, 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of Heath-Newark-Licking County Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Heath-Newark-Licking County Port Authority as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types 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 a report dated June 23, 2005 on our consideration of the Heath-Newark-Licking County Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

S. R. Snodgrass, A.C.

S.R. Snodgrass, A.C.
June 23, 2005

HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
COMBINING BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2003

	Facility Operations	Capital Equipment	Non PIP Port Authority	Capital Improvement	Totals
Assets:					
Cash and cash equivalents	$ 6,899,560	$1,742,858	$510,802	$ 85,000	$ 9,238,220
Receivables (net of allowances for doubtful accounts):					
Accounts	8,595	-	-	-	8,595
Intergovernmental	6,443	-	-	-	6,443
Prepaid items	178,997	-	-	-	178,997
Property, plant and equipment	17,879,413	1,991,001	-	93,617	19,964,031
Less accumulated depreciation	(4,003,430)	(1,581,189)	-	(59,932)	(5,644,551)
Net fixed assets	13,875,983	409,812	-	33,685	14,319,480
Total assets	$20,969,578	$2,152,670	$510,802	$118,685	$23,751,735
Liabilities and Fund Equity:					
Liabilities:					
Accounts payable	$ 17,638	$ 265,935	$ -	$ -	$ 283,573
Accrued wages and benefits	37,261	-	-	-	37,261
Intergovernmental payable	201,843	-	-	-	201,843
Customer deposits	1,250	-	-	-	1,250
Accrued interest payable	8,692	-	-	-	8,692
Deferred revenue	656,416	31,922	-	-	688,338
Compensated absences payable	3,754	-	-	-	3,754
Mortgage promissory note payable	4,079,515	-	-	-	4,079,515
Revenue bond payable	2,986,373	-	-	-	2,986,373
Total liabilities	7,992,742	297,857	-	-	8,290,599
Fund equity:					
Contributed capital	105,590	-	-	405,988	511,578
Retained earnings:					
Unreserved	12,871,246	1,854,813	510,802	(287,303)	14,949,558
Total retained earnings	12,871,246	1,854,813	510,802	(287,303)	14,949,558
Total fund equity	12,976,836	1,854,813	510,802	118,685	15,461,136
Total liabilities and fund equity	$20,969,578	$2,152,670	$510,802	$118,685	$23,751,735

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

HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Facility Operations	Capital Equipment	Non PIP Port Authority	Capital Improvement	Totals
Operating Revenues:					
Charges for services –					
Building leases	$ 3,047,212	$ 381,072	$ -	$ -	$ 3,428,284
Other operating revenues	27,266	-	-	-	27,266
Total operating revenues	3,074,478	381,072	-	-	3,455,550
Operating Expenses:					
Personal services	708,063	-	-	-	708,063
Materials and supplies	43,381	-	-	-	43,381
Contractual services	1,118,845	208,481	-	-	1,327,326
Depreciation	520,087	99,861	-	7,505	627,453
Total operating expenses	2,390,376	308,342	-	7,505	2,706,223
Operating income (loss)	684,102	72,730	-	(7,505)	749,327
Nonoperating revenues (expenses):					
Investment earnings	81,871	20,774	6,142	-	108,787
Interest and fiscal charges	(526,739)	-	-	-	(526,739)
Gain on disposal of fixed assets	33,536	-	-	-	33,536
Other nonoperating revenue	1,663,170	-	-	-	1,663,170
Total nonoperating revenues (expenses)	1,251,838	20,774	6,142	-	1,278,754
Net income (loss)	1,935,940	93,504	6,142	(7,505)	2,028,081
Retained earnings (accumulated deficit) at beginning of year	10,935,306	1,761,309	504,660	(279,798)	12,921,477
Retained earnings (accumulated deficit at end of year	$12,871,246	$1,854,813	$510,802	$(287,303)	$14,949,558

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

HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Facility Operations	Capital Equipment	Non PIP Port Authority	Capital Improvement	Totals
Cash Flows form Operating Activities:					
Cash received from customers	$3,031,393	$ 381,238	$ -	$ -	$3,412,631
Cash payments for goods and services	(1,035,299)	57,454	-	-	(977,845)
Cash payments to employees	(701,279)	-	-	-	(701,279)
Net cash provided by operating activities	1,294,815	438,692	-	-	1,733,507
Cash Flows from Capital and Related Financing Activities:					
Acquisition and construction of assets	(120,547)	(315,619)	-	-	(436,166)
Principal payment on revenue bond payable	(887,029)	-	-	-	(887,029)
Interest paid on debt	(139,717)	-	-	-	(139,717)
Proceeds from sale of fixed assets	34,636	-	-	-	34,636
Net cash used by capital and related financing activities	(1,112,657)	(315,619)	-	-	(1,428,276)
Cash Flows from Investing Activities:					
Receipts of interest earnings	81,871	20,774	6,142	-	108,787
Net cash provided by investing activities	81,871	20,774	6,142	-	108,787
Net increase in cash and cash equivalents	264,029	143,847	6,142	-	414,018
Cash and cash equivalents at beginning of year	6,635,531	1,599,011	504,660	85,000	8,824,202
Cash and cash equivalents at end of year	$6,899,560	$1,742,858	$510,802	$8,5000	$9,238,220

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

HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003

	Facility Operations	Capital Equipment	Non PIP Port Authority	Capital Improvement	Totals
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:					
Operating income (loss)	$ 684,102	$ 72,730	$ -	$(7,505)	$ 749,327
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	520,087	99,861	-	7,505	627,453
Changes in assets and liabilities:					
Increase in accounts receivable	(8,392)	-	-	-	(8,392)
Increase in intergovernmental receivable	(6,181)	-	-	-	(6,181)
Decrease in prepaid items	68,112	-	-	-	68,112
Increase (decrease) in accounts payable	15,671	265,935	-	-	281,606
Increase in accrued wages and benefits	3,771	-	-	-	3,771
Increase in intergovernmental payable	43,144	-	-	-	43,144
Decrease in customer deposits	250	-	-	-	250
Decrease in retainage payable	-	-	-	-	-
Increase (decrease) in deferred revenue	(28,762)	166	-	-	(28,596)
Increase in compensated absences	3,013	-	-	-	3,013
Total adjustments	610,713	365,962	-	7,505	984,180
Net cash provided (used) by operating activities	$1,294,815	$438,692	$ -	$ -	$1,733,507

Schedule of Noncash Investing, Capital and Financing Activities

During 2003 in lieu of receiving rental payments, $1,269,181 in principal and $393,989 in interest was considered paid on the Port Authority's mortgage promissory note payable in the Air Force.

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2003**

	Enterprise Funds		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
Operating Revenues:			
Changes in services – building leases	$3,426,130	$3,398,364	$(27,766)
Other operating revenues	1,500	14,267	12,767
Total operating revenues	3,427,630	3,412,631	(14,999)
Operating Expenses:			
Current:			
Personal services	697,629	701,279	(3,650)
Materials and supplies	65,217	43,541	21,676
Contractual services	2,427,519	2,110,447	317,072
Capital outlay	8,500	7,082	1,418
Total operating expenses	3,198,865	2,862,349	336,516
Operating loss	228,765	550,282	321,517
Nonoperating Revenues (Expenses):			
Principal retirements	(888,709)	(887,029)	1,680
Investment earnings	157,700	108,787	(48,913)
Interest and fiscal charges	(138,037)	(139,717)	(1,680)
Proceeds from sale of fixed assets	10,000	34,636	24,636
Total nonoperating revenues (expenses)	(859,046)	(883,323)	(24,277)
Net income	(630,281)	(333,041)	297,240
Retained earnings at beginning of year	8,800,065	8,800,065	-
Prior year encumbrances	24,137	24,137	-
Retained earnings at end of year	$8,193,921	$8,491,161	$297,240

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heath-Newark-Licking County Port Authority (the "Port Authority") was created on May 18, 1995 under the authority of Section 4582.21 et. seq. of the Ohio Revised Code which provides that "a municipal corporation, a county or any combination thereof acting jointly, may create a port authority which shall be a body corporate and politic and have territorial limits coterminous with the territorial limits of the political subdivision(s) creating such port authority." The Port Authority is reported as a proprietary operation in the accompanying General Purpose Financial Statements (the "GPFS").

The accompanying general purpose financial statements of the Port Authority present the financial position of the various funds, the results of operations and the cash flows. The financial statements are presented as of December 31, 2003 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

A. Reporting Entity

The accompanying general purpose financial statements comply with the provisions of the GASB Statement No. 14, "The Financial Reporting Entity," in that the financial statements include all organizations, activities, functions and component units for which the Port Authority (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the Port Authority's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the Port Authority.

Based on the foregoing, the Port Authority's financial reporting entity has no component units but includes all funds that are part of the primary government.

B. Basis of Presentation - Fund Accounting

The Port Authority operates four enterprise funds within the proprietary fund type. The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. More specifically, the enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Presentation - Fund Accounting (Continued)

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," the Port Authority follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

The Port Authority uses the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

C. Budgetary Process

The budgetary process is prescribed by the provisions of Ohio Revised Code Section 4582.39. "Rents and charges received by the port authority shall be used for the general expenses of the port authority and to pay interest, amortization, and retirement charges on money borrowed." The major document prepared is the appropriation resolution which is prepared on the budgetary basis of accounting.

The appropriation resolution is subject to amendment throughout the year. All funds are legally required to be budgeted and appropriated. The primary level of budgetary control is at the object level within each fund. Budgetary modifications may only be made by resolution of the Board of Directors.

1. Budget

The Secretary submits an annual budget and appropriations resolution for the following fiscal year to the Board of Directors by the December board meeting for consideration and passage. The adopted budget shall not exceed the total of the estimated revenues available for expenditure from each fund.

2. Estimated Resources

The Secretary prepares estimated revenues by fund prior to consideration of the annual appropriation resolution. The port authority must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

3. Appropriations

A temporary appropriation resolution to control expenditures may be passed on or about January 1 of each year for the period January I through March 31. An annual appropriation resolution must be passed by April 1 of each year for the period January 1 through December 31. The appropriation resolution establishes spending controls at the fund and object level (i.e. personal services, materials and supplies, contractual services, and capital outlay). The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources. The allocation of appropriations among objects within a fund may be modified during the year by a resolution of the Board of Directors.

The budgetary figures which appear in the "Statement of Revenues, Expenses, and Changes in Retained Earnings--Budget and Actual--Proprietary Funds" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. Encumbrances outstanding at year end are reported as expenditures in the budgetary statements included in the accompanying financial statements.

5. Lapsing of Appropriations

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting:

The budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenses are recorded. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and cash disbursements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

6. Budgetary Basis of Accounting (continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the enterprise funds:

Net Income/Excess of Revenues Over
Expenses and Operating Transfers

	Proprietary Funds
GAAP Basis (as reported)	$2,028,081
Adjustments:	
Revenue accruals	(43,169)
Expense accruals	299,697
Prepaid items	68,112
Capitalized assets	(230,339)
Depreciation	447,846
Encumbrances	(747,059)
Debt retirements	(2,156,210)
Budget basis	$ (333,041)

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and repurchase agreements. The Port Authority pools cash for investment and resource management purposes. Each fund's equity in pooled cash, including the investment instruments described above, represents the balance on hand as if each fund maintains its own cash and investments account. For purposes of the statement of cash flows, each fund's share of equity in pooled cash and investments is considered to be a cash equivalent. See Note 3, "Pooled Cash, Cash Equivalents, and Investments."

E. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools* ", the Port Authority reports its investments at fair value. Nonparticipating investment contracts (repurchase agreements) are reported at cost which approximates fair value.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market. The cost of inventory items is recorded as expenses in the enterprise funds when used.

G. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is as follows:

Property, plant and equipment acquired by the enterprise funds are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (in years)
Machinery, equipment, vehicles, furniture and fixtures	5 – 20
Buildings	20 – 25
Improvements Other Than Buildings	25

Depreciation on enterprise fixed assets is charged to retained earnings.

H. Long-Term Obligations

Long-term liabilities are being repaid from the following fund:

Obligation	Fund
Mortgage	Facility Operations Fund
Revenue Bond	Facility Operations Fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Compensated Absences

In accordance with GASB Statement No. 16, "*Accounting for Compensated Absences*," compensated absences are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Employees earn vacation leave based on length of service and position. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Employees earn 10 days of sick leave per year, which may be carried over to subsequent years. There is no liability for unpaid accumulated sick leave since upon separation or retirement, employees do not receive any payment for unused sick time.

J. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

K. Contributed Capital

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from contributions from capital grants is recorded as an operating expense and closed along with other operating expenses directly into retained earnings.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

The deficit of $287,303 in the Capital Improvement Fund arises from the past recording of intergovernmental grants as contributed capital under the accrual basis of accounting. A deficit does not exist under the cash basis of accounting.

NOTE 3 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of the Port Authority are combined to form a pool of cash and investments. Statutes require the classification of funds held by the Port Authority into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the Port Authority. Such funds must be maintained either as cash in the Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

NOTE 3 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds which are not needed for immediate use, but which will be needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- Bonds, notes or other obligations guaranteed by the United States, or those for which the faith of the United States is pledged for payment of principal and interest;
- Bonds, notes, debentures or other obligations or securities issued by any federal government agency or the Export-Import Bank of Washington;
- Repurchase agreements in the securities enumerated above;
- Interim deposits in eligible institutions applying for interim funds; and
- Bonds and other obligations of the State of Ohio or any political subdivision of the State of Ohio.

Ohio law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Port Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3, "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*, " collateral held in single financial institution's collateral pool with securities being held by the pledging institutions' agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

Deposits:

Category 1	Insured or collateralized with securities held by the Port Authority or by its agent in the Port Authority's name.
Category 2	Collateralized with securities held by the pledging financial institution's trust department or agent in the Port Authority's name.
Category 3	Uncollateralized. (This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Port Authority's name.)

NOTE 3 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (continued)

Investments:

Category 1	Insured or registered, with securities held by the Port Authority or its agent in the Port Authority's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Port Authority's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Port Authority's name.

A. Deposits

At year end the carrying amount of the Port Authority's deposits was $1,731,060 and the bank balance was $1,792,858. Federal depository insurance covered $100,000 of the bank balance, and all remaining deposits were uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or their trust departments or agents was not in the Port Authority's name due to the fact that the pledging bank has an investments and securities pool used to collateralize all public deposits. This method of col1ateralization is expressly authorized by state statute.

B. Investments

The Port Authority's investments at December 31, 2003 are summarized below:

Categorized Investments	Category 2	Fair Value
Repurchase Agreement	$7,507,160	$7,507,160

C. Reconciliation of Cash. Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the accompanying balance sheet is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the accompanying financial statements and the classifications per items A of this note are as follows:

	Cash and Cash Equivalents	Investments
Per combined balance sheet	$ 9,238,220	$ -
Investments:		
Repurchase agreement	(7,507,160)	7,507,160
Per GASB Statement No. 3	$1,731,060	$7,507,160

NOTE 4 - FIXED ASSETS

Proprietary Fixed Assets--Summary by Category at December 31,2003:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	$ 6,066,974	$ -	$ 6,066,974
Buildings and improvements	10,089,739	(2,899,289)	7,190,450
Infrastructure	506,254	(150,125)	356,129
Furniture and fixtures	691,479	(304,388)	387,091
Machinery and equipment	2,400,645	(2,138,244)	262,401
Vehicles	208,940	(152,505)	56,435
Total property, plant and equipment	$19,964,031	$(5,644,551)	$14,319,480

NOTE 5 - DEFINED BENEFIT PENSION PLANS

The following information was provided by the Ohio Public Employees Retirement System (the "Ohio PERS") to assist the Authority in complying with GASB Statement No. 27, "*Accounting for Pensions by State and Local Government Employers*."

All employees of the Authority, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD 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 MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of- living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand- alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-7377.

NOTE 5 - DEFINED BENEFIT PENSION PLANS (Continued)

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2003, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2003 employer contribution rate for local government employer units was 13.55%, of covered payroll, 8.55% to fund the pension and 5.0% to fund health care. The contribution requirements of plan members and the Authority are established and may be amended by the Public Employees Retirement Board. The Authority's contributions to the Ohio PERS for the years ending December 31, 2003, 2002 and 2001 were $64,531, $60,267 and $60,511, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2003 employer contribution rate (identified above) that was used to fund health care for the year 2003 was 5.0% of covered payroll which amounted to $23,812.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2002. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2002 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 364,881. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2002 is $10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were $18.7 billion and $8.7 billion, respectively.

HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

NOTE 6 - LONG-TERM DEBT OBLIGATIONS

Long-term debt obligations of the Port Authority at December 31, 2003 were as follows:

		Balance December 31, 2002	Issued (Retired)	Balance December 31, 2003
Enterprise Long-Term Obligations:				
Mortgage:				
8.25% Promissory Note	1996	$5,348,696	$(1,269,181)	$4,079,515
4.76% Revenue Bond	2002	3,873,402	(3,873,402)	-
3.426% Revenue Bond	2003	-	3,519,155	
			(532,782)	2,986,373
Total Enterprise Long-Term Obligations		$9,222,098	$(2,156,210)	$7,065,888

A. Principal and Interest Requirements

A summary of the Port Authority future long-term debt funding requirements, including principal and interest payments as of December 31, 2003, follows:

	Mortgage		Revenue Bond	
Years	Principal	Interest	Principal	Interest
2004	$1,377,939	$285,230	$ 938,811	$ 87,935
2005	1,496,018	167,151	971,767	54,980
2006	1,205,558	41,820	1,005,597	21,150
2007	-	-	70,198	204
Totals	$4,079,515	$494,201	$2,986,373	$164,269

B. Promissory Note Provisions

The Promissory Note securing the mortgage for the facilities acquired from the Air Force provides the following. . ."If at any time money is owed under this loan, the Air Force does not have a need for such rent free facilities provided by Borrower, the purchase price of the subject property will be reduced to TWO MILLION TWO HUNDRED THOUSAND DOLLARS ($2,200,000), which represents the fair market value of the subject property without such need by the Lender. In such case, the value already earned by the Borrower will be credited towards this new revised amount." Should the Air Force cease its operations at the facilities now owned and operated by the Heath-Newark-Licking County Port Authority the outstanding liability for the mortgage would be reduced to $2.2 million less the amount of principal previously paid by the Port Authority under the terms of the above noted mortgage retirement schedule.

NOTE 7 - CONTRIBUTED CAPITAL

There were no changes in contributed capital as presented below:

	Facility Operations	Capital Equipment	Capital Improvement	Total
Balance at December 31, 2003	$105,590	$ -	$405,988	$511,578

NOTE 8 - RISK MANAGEMENT

The Port Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Port Authority joined the Ohio Government Risk Management Plan (the "OGRMP"), a public entity risk plan formed under Section 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The Port Authority pays an annual premium to the OGRMP for its general insurance coverage. The agreement for formation of the OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure all claims in excess of a member's deductible through commercial insurance and reinsurance companies.

During 2003 the Port Authority contracted with several different insurance providers for various insurance coverages, as follows:

Insurance Provider	Coverage	Deductible
Chubb Group Insurance Companies	Property Casualty	$100,000 per occurrence
Greatland Insurance (Kemper Insurance Group)	Bridges	$25,000 per occurrence
Hartford Fire Insurance Company (National Flood Services)	Flood	$500 per occurrence
Lloyds of London (10/8/02 - 10/8/03)	Terrorism	$250,000 per occurrence
Chubb Group Insurance Co. (10/8/03 - Present)	Terrorism	$250,000 per occurrence

There has been no significant reduction in insurance coverages from coverages in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

Workers' compensation claims are covered through the Port Authority's participation in the State of Ohio's program. The Port Authority pays the State Workers' Compensation System a premium based upon a rate per $100 of payroll. The rate is determined based on accident history and administrative costs.

NOTE 9 - CONDUIT DEBT

From time to time, the Port Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector and non-profit entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The tax-exempt bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the Port Authority, the state, nor any political subdivision thereof is obligated in any manner for repayment on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying general purpose financial statements.

For calendar year 2003, there was one series of Industrial Revenue Bonds issued on behalf of Licking Memorial Hospital with Bank One as the sole bond holder, totaling $9 million dollars.

SNODGRASS
Certified Public Accountants
and Consultants

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Heath-Newark-Licking County Port Authority
Heath, Ohio

We have audited the general purpose financial statements of Heath-Newark-Licking County Port Authority as of and for the year ended December 31, 2003 and have issued our report thereon dated June 23, 2005. 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 Heath-Newark-Licking County Port Authority's general purpose 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 instance 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 Heath-Newark-Licking County Port Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose 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 weaknesses 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 general purpose 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.

This report is intended for the information and use of the board of directors, management and Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

S. R. Snodgrass, A.C.

S.R. Snodgrass, A.C.
June 23, 2005

Auditor of State
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HEATH/NEWARK/LICKING CO. PORT AUTHORITY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 23, 2005