# HEATH-NEWARK-LICKING COUNTY
# PORT AUTHORITY
# HEATH, OHIO

## BASIC FINANCIAL STATEMENTS

## FOR THE FISCAL YEAR ENDED
## DECEMBER 31, 2008

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditors' Report* of the Heath Newark Licking County Port Authority, Licking County, prepared by S.R. Snodgrass, A.C., for the audit period January 1, 2008 through December 31, 2008. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

August 11, 2009

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**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY**
**HEATH, OHIO**

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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying statement of net assets of the Heath-Newark-Licking County Port Authority (the "Authority") as of December 31, 2008 and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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 Heath-Newark-Licking County Port Authority as of December 31, 2008 and the results of its operations and its cash flows for the years 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 June 17, 2009 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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 on pages 2-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

S. R. Snodgrass, A. C.

S.R. Snodgrass, A.C.
June 17, 2009

**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY,**
**HEATH, OHIO**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED**
**DECEMBER 31, 2008**

The discussion and analysis of the Heath-Newark-Licking Port Authority's (the "Authority") financial performance provides an overall review of the Authority's financial activities for the fiscal year ended December 31, 2008. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

## FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 are as follows:

- Despite a poor national economy, there were no disruptions to Port Authority lease revenues.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts - management's discussion and analysis and the basic financial statements. These statements are organized so the reader can understand the financial position of the Authority. Enterprise accounting uses a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities are included on the statement of net assets. The statement of net assets represents the basic statement of position for the Authority. The statement of revenues, expenses, and changes in net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The statement of cash flows reflects how the Authority finances and meets its cash flow needs. Finally, the notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided on the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2008**

## FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

The Authority is not required to present government-wide financial statements as the Authority is engaged in only business-type activities. Therefore, no condensed financial information derived from government-wide financial statements is included in the discussion and analysis.

The following tables represent the Authority's condensed financial information for 2008 and 2007 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

| | 2008 | 2007 |
|---|---|---|
| Current assets | $12,083,585 | $10,822,419 |
| Capital asset, net | 14,054,920 | 13,809,136 |
| Total assets | 26,138,505 | 24,631,555 |
| Current liabilities | 1,192,258 | 983,270 |
| Long-term debt outstanding | 912,261 | 912,261 |
| Total liabilities | 2,104,519 | 1,895,531 |
| Equity: | | |
| Invested in capital assets net of related debt | 13,142,659 | 12,896,875 |
| Unrestricted | 10,891,327 | 9,839,149 |
| Total net assets | $24,033,986 | $22,736,024 |

**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY,**
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**FOR THE FISCAL YEAR ENDED**
**DECEMBER 31, 2008**

Changes in Net Assets – The following table shows the changes in net assets for 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Revenues | | |
| Charges for services – building leases | $ 3,660,680 | $ 3,660,060 |
| Other operating revenue | 24,077 | 59,033 |
| Total revenues | 3,684,757 | 3,719,093 |
| Expenses | | |
| Personal services | 678,123 | 709,246 |
| Supplies and materials | 82,299 | 56,547 |
| Contractual services | 1,529,624 | 1,784,143 |
| Depreciation | 674,217 | 665,660 |
| Total expenses | 2,964,263 | 3,215,596 |
| Operating income | 720,494 | 503,497 |
| Nonoperating revenues | | |
| Insurance recovery | 387,671 | - |
| Intergovernmental grants | 40,417 | 500,000 |
| Investment earnings | 234,947 | 493,186 |
| Gain on sale of land | 15,000 | - |
| Loss on disposal of capital assets | (65,555) | (50,232) |
| Interest and fiscal charges | (35,012) | (39,592) |
| Total change in net assets | 1,297,962 | 1,406,859 |
| Beginning net assets | 22,736,024 | 21,329,165 |
| Ending net assets | $24,033,986 | $22,736,024 |

Net assets increased by $1,297,962. This increase was primarily the result of managed expenses and steady lease revenues.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008 the Authority had $14,054,920 net of accumulated depreciation invested in capital assets. The following table shows 2008 and 2007 balances:

| | 2008 | 2007 | Increase (Decrease) |
|---|---|---|---|
| Land | $ 5,901,712 | $ 5,823,212 | $ 78,500 |
| Building and improvements | 12,450,979 | 11,644,780 | 806,199 |
| Infrastructure | 1,015,870 | 1,024,565 | (8,695) |
| Furniture and fixtures | 680,785 | 688,396 | (7,611) |
| Machinery and equipment | 2,432,140 | 2,456,002 | (23,862) |
| Vehicles | 178,370 | 178,370 | - |
| Less: accumulated deprecation | (8,604,936) | (8,006,189) | (598,747) |
| Totals | $14,054,920 | $13,809,136 | $ 245,784 |

Additional information on the Authority's capital assets can be found in Note 5.

### Debt

The following table summarizes the Authority's debt outstanding as of December 31, 2008 and 2007:

| | 2008 | 2007 |
|---|---|---|
| Revenue bonds payable | $912,261 | $912,261 |
| Compensated absences | 3,222 | 2,770 |
| Totals | $915,483 | $915,031 |

Additional information on the Port Authority's long-term debt can be found in Note 7.

## ECONOMIC FACTORS

- The Port Authority continued to move forward with planned capital improvements in 2008 despite the poor national economy.

- Port Authority customers reported an eight-year high in employment as of December 31, 2008 with 950 employed by 17 different firms.

- Port Authority investment earnings were closely tied to the Fed Rate. A combination of an upward adjustment to interest rates on the account holdings and a move to a secured CD investment helped prevent a more significant decline in investment income.

## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information contact Rick Platt, President and CEO of the Heath-Newark-Licking Port Authority.

**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY,**
**HEATH, OHIO**
**STATEMENT OF NET ASSETS**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2008**

| | |
|---|---|
| **ASSETS** | |
| Current assets: | |
| Cash and cash equivalents | $ 6,229,690 |
| Investments | 5,000,000 |
| Receivables | |
| Accounts | 188,221 |
| Interest | 18,313 |
| Intergovernmental | 38,285 |
| Prepaid items | 112,357 |
| Total current assets | 11,586,866 |
| | |
| Nonaccrual assets: | |
| Loan receivable | 496,719 |
| Capital assets not being depreciated | 5,901,712 |
| Capital assets being depreciated, net | 8,153,208 |
| Total capital assets | 14,054,920 |
| Total noncurrent assets | 14,551,639 |
| Total assets | 26,138,505 |
| | |
| **LIABILITIES** | |
| Current liabilities: | |
| Accounts payable | 111,411 |
| Accrued wages and benefits | 24,471 |
| Intergovernmental payable | 80,044 |
| Dues to others | 14,093 |
| Customer deposit | 750 |
| Accrued interest payable | 2,929 |
| Unearned revenue | 955,338 |
| Compensated absences payable | 3,222 |
| Revenue Bond Payable-current | 757,965 |
| Total current liabilities | 1,950,223 |
| | |
| Noncurrent liabilities: | |
| Revenue bond payable | 154,296 |
| Total noncurrent liabilities | 154,296 |
| Total liabilities | 2,104,519 |
| | |
| Net assets: | |
| Invested in capital assets, net of related debt | 13,142,659 |
| Unrestricted | 10,891,327 |
| Total net assets | $24,033,986 |

See accompanying notes to the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY,**
**HEATH, OHIO**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2008**

| | |
|---|---|
| Operating Revenues: | |
| Charges for services – building leases | $ 3,660,680 |
| Other operating revenues | 24,077 |
| Total operating revenues | 3,684,757 |
| | |
| Operating Expenses: | |
| Personal services | 678,123 |
| Materials and supplies | 82,299 |
| Contractual services | 1,529,624 |
| Depreciation | 674,217 |
| Total operating expenses | 2,964,263 |
| | |
| Operating income | 720,494 |
| | |
| Nonoperating Revenues (Expenses): | |
| Insurance recovery | 387,671 |
| Intergovernmental grants | 40,417 |
| Investment earnings | 234,947 |
| Interest and fiscal charges | (35,012) |
| Loss on disposal of capital assets | (65,555) |
| Other nonoperating revenue | 15,000 |
| Total nonoperating revenues (expenses) | 577,468 |
| | |
| Change in net assets | 1,297,962 |
| | |
| Net assets at beginning of year | 22,736,024 |
| Net assets at end of year | $24,033,986 |

See accompanying notes to the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY**
**PORT AUTHORITY,**
**HEATH, OHIO**
**STATEMENT OF CASH FLOWS**
**PROPRIETARY FUNDS**
**DECEMBER 31, 2008**

| | |
|---|---|
| Cash Flows from Operating Activities: | |
| Cash received from customers | $ 3,935,689 |
| Cash payments for goods and services | (1,664,857) |
| Cash payments to employees | (672,300) |
| Net cash provided by operating activities | 1,598,532 |
| | |
| Cash Flows from Noncapital Financing Activities: | |
| Loan disbursement | (485,000) |
| Receipts for loan | 17,374 |
| Intergovernmental grants | 3,029 |
| Net cash used by noncapital financing activities | (464,597) |
| | |
| Cash Flows from Capital and Related Financing Activities: | |
| Proceeds from sale of capital assets | 10,551 |
| Proceeds from insurance recovery | 200,000 |
| Acquisition and construction of assets | (996,107) |
| Principal payment on revenue bond payable | - |
| Interest paid on debt | (35,446) |
| Net cash used by capital and related financing activities | (821,002) |
| | |
| Cash Flows from Investing Activities: | |
| Purchase of investments | (5,000,000) |
| Receipts of interest earnings | 216,634 |
| Net cash used by investing activities | (4,783,366) |
| | |
| Net decrease in cash and cash equivalents | (4,470,433) |
| Cash and cash equivalents at beginning of year | 10,700,123 |
| Cash and cash equivalents at end of year | $ 6,229,690 |
| | |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | |
| Operating income | $ 720,494 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| Depreciation expense | 674,217 |
| Changes in assets and liabilities: | |
| Increase in accounts receivable | (501) |
| Decrease in intergovernmental receivable | 683 |
| Decrease in prepaid items | 8,310 |
| Decrease in accounts payable | (60,047) |
| Increase in accrued wages and benefits | 5,371 |
| Decrease in intergovernmental payable | (1,197) |
| Increase in customer deposits | 750 |
| Increase in compensated absences | 452 |
| Increase in unearned revenue | 250,000 |
| Total adjustments | 878,038 |
| Net cash provided by operating activities | $ 1,598,532 |

See accompanying notes to the basic financial statements.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heath-Newark-Licking County Port Authority (the "Port Authority") was created on May 18, 1996 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 financial statements are presented as of December 31, 2008 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 basic 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.

### B. Basis of Presentation

The Authority operates as a self-supporting governmental enterprise and uses accounting policies applicable to governmental enterprise funds. All transactions are accounted for in a single enterprise fund.

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 has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### C. 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 Port Authority 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 Port Authority finances and meets the cash flow needs of its enterprise activity.

### D. Basis of Accounting

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

### E. 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)

### E. 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 1 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.

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.

### F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and repurchase agreements.

### G. 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)**

**H. Capital Assets and Depreciation**

Capital Assets are defined by the Port Authority as assets with an initial, individual cost of more than $1,000.

Property, plant and equipment acquired by the enterprise funds are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Donated capital 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 | 2 – 20 |
| Buildings | 10 – 30 |
| Improvements other than buildings | 10 – 25 |

**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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### J. Pensions

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

### K. 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 balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources, which are restricted to satisfy debt service requirements as specified in debt agreements.

### L. Revenue & Expenses

Operating revenues consist primarily of fees for services, rents and charges for use of Port facilities, and other income. Operating expenses include the cost of providing these services, including administrative expenses and depreciation on capital assets.

Nonoperating revenues and expenses are all revenues and expenses not meeting the definition of operating revenues and expenses. Nonoperating revenues include intergovernmental grants and interest from investments. Nonoperating expenses include interest expense on long-term debt.

## NOTE 2 – CHANGE IN ACCOUNTING PRINCIPLES

The Port Authority implemented GASB Statement No. 45 *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension"* and GASB Statement No. 50 *"Pension Disclosures"*. Statement No. 45 establishes standards of accounting and financial reporting for Other Postemployment Benefits (OPEB), note disclosures and required supplementary information. Statement No. 50 more closely aligns the financial reporting requirements for pensions with those for (OPEB) and enhances information disclosed in the notes to the financial statements. The application of these new standards did not have an effect on the financial statements, nor did implementation require a restatement of prior year balances.

## NOTE 3 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of the Port Authority are combined to form a pool of cash and investments. The Port Authority has adopted an Investment Policy that follows Ohio Revised Code Chapter 135 and applies the prudent person standard. The prudent person standard requires the Auditor and Treasurer to exercise the care, skill and experience that a prudent person would use to manage his/her personal financial affairs and to seek investments that will preserve principal while maximizing income. Statutes require the classification of funds held by the Port Authority into three categories.

## NOTE 3 – POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS

Category I 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.

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:

- United States treasury notes, bills, bonds, or any other obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

- 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;

- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

- Interim deposits in eligible institutions applying for interim funds;

- Bonds and other obligations of the State of Ohio;

- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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

- The State Treasury Asset Reserve of Ohio (STAR Ohio).

## NOTE 3 – POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

### Deposits

Custodial credit risk is the risk that in the event of bank failure, the government’s deposit may not be returned. Protection of Port Authority cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. 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. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the Port Authority's deposits was $6,404,907 and the bank balance was $6,456,814. Federal depository insurance covered $250,000 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 collateralization is expressly authorized by state statute.

### Investments

The Port Authority reports a certificate of deposit with original maturity of more than three months as investments on the Statement of Net Assets. In addition, the Authority maintains an overnight repurchase agreement, which has no credit rating, in the amount of $4,824,783. Of the Port Authority’s total investments, 100% was invested in repurchase agreements and certificates of deposits.

*Interest Rate Risk* – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

*Concentration of Credit Risk* – The Port Authority places no limit on the amount the Port Authority may invest in one issuer.

*Custodial Credit Risk* – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Port Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the Port Authority’s investments, the entire balance is collateralized by underlying securities pledged by the investment’s counterparty, not in the name of the Port Authority.

## NOTE 4 – LOAN RECEIVABLE

In 2008, the Port Authority entered into a 10-year lease agreement with the Boeing Company that included a $500,000 loan. Boeing is making monthly installments to pay of $50,000 of the loan over 10 years at 5.0%. The remaining $450,000 of the loan is due at the end of 10 years only if the 10-year lease on the equipment is severed early.

## NOTE 5 - CAPITAL ASSETS

Proprietary Capital Assets--Summary by Category at December 31, 2008:

***Historical Cost:***

| Class | December 31, 2007 | Additions | Deletions | December 31, 2008 |
|---|---|---|---|---|
| ***Capital assets not being depreciated:*** | | | | |
| Land | $ 5,823,212 | $ 78,500 | $ - | $ 5,901,712 |
| Subtotal | 5,823,212 | 78,500 | - | 5,901,712 |
| ***Capital assets being depreciated:*** | | | | |
| Buildings and improvements | 11,644,780 | 883,044 | (76,845) | 12,450,979 |
| Infrastructure | 1,024,565 | - | (8,695) | 1,015,870 |
| Furniture and fixtures | 688,396 | - | (7,611) | 680,785 |
| Machinery and equipment | 2,456,002 | 34,563 | (58,425) | 2,432,140 |
| Vehicles | 178,370 | - | - | 178,370 |
| Subtotal | 15,992,113 | 917,607 | (151,576) | 16,758,144 |
| Total cost | $21,815,325 | $ 996,107 | $(151,576) | $22,659,856 |

***Accumulated Depreciation:***

| Class | December 31, 2007 | Additions | Deletions | December 31, 2008 |
|---|---|---|---|---|
| Buildings | $ (4,649,066) | $(491,354) | $ 28,579 | $ (5,111,841) |
| Infrastructure | (330,709) | (71,646) | 2,608 | (399,747) |
| Furniture and fixtures | (566,568) | (67,517) | 3,427 | (630,658) |
| Machinery and equipment | (2,344,716) | (31,546) | 40,856 | (2,335,406) |
| Vehicles | (115,130) | (12,154) | - | (127,284) |
| Total depreciation | $(8,006,189) | $(674,217) | $ 75,470 | $(8,604,936) |
| ***Net value*** | $13,809,136 | | | $14,054,920 |

## NOTE 6 - 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 that has elements of both a defined benefit and defined contribution 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) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2008, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 10.0%. The 2008 employer contribution rate for local government employer units was 14.00%, of covered payroll which is the maximum contribution rate set by State statues. Employer contribution rates are actuarially determined. A portion of the Port Authority’s contribution is used to fund pension obligations with the remainder being used to fund health care benefits; for 2008, 7.0% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and the Port Authority are established and may be amended by the OPERS Board. The Port Authority's required contributions for pension obligations to OPERS for the years ending December 31, 2008, 2007 and 2006 were $30,938, $36,255 and $38,406, respectively, which were equal to the required contributions for each year.

**NOTE 7 – POSTEMPLOYMENT BENEFITS**

Plan Description - OPERS administers three separate pension plans: the Traditional Pension Plan - a cost-sharing, multiple-employer defined benefit pension plan; the Member directed Plan - a defined contribution plan; and the Combined Plan - a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care plan, which includes a medical plan, prescription drug program and Medicare Part B Premium reimbursement, to qualifying member of both the Traditional Pension and the Combined Plans. Members of the Member Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 45.

The ORC permits, but does not mandate, OPERS to provide OPEB benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the ORC.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to OPERS, Attention: Finance Director, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 1-800-222-7377.

Funding Policy - The ORC provides the statutory authority requiring public employers to fund post retirement health care coverage through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care benefits. Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2008, local government employers contributed at a rate of 14.00% of covered payroll. The ORC currently limits the employer contribution to a rate not to exceed 14.0% of covered payroll for local government employers. Active members do not make contributions to the OPEB plan.

The OPERS Postemployment Health Care plan was established under, and is administered in accordance with Internal Revenue Code 401(h). Each year the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of postemployment health care benefits. For 2008, the employer contribution allocated to the health care plan was 7.0% of covered payroll. The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Port Authority's contributions for health care to the OPERS for the years ending December 31, 2008, 2007, and 2006 were $30,938, $23,880 and $18,786, respectively, which were equal to the required contributions for each year.

**NOTE 7 – POSTEMPLOYMENT BENEFITS (CONTINUED)**

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007 and January 1, 2008, which allowed additional funds to be allocated to the health care plan.

**NOTE 8 – LONG-TERM DEBT**

Long-term debt obligations of the Port Authority at December 31, 2008 were as follows:

| | | Balance December 31, 2007 | Deletions | Balance December 31, 2008 | Amount Due Within One Year |
|---|---|---|---|---|---|
| **Long-Term Debt** | | | | | |
| 3.780% Revenue Bond | 2003 | $912,261 | $ - | $912,261 | $757,965 |
| Total long-term debt | | $912,261 | $ - | $912,261 | $757,965 |

In February 2006, the Port Authority modified its 2002 Bond Series for the purchase of real property, converting $912,261 to interest-only payments. By Board Resolution in March 2008, the Port Authority will remain with interest only payments until March 2009.

In 2008, the Port Authority closed on a $1.5 million loan from the State of Ohio for the Boeing Company to make facility improvements. The loan is secured by the property financed under a 10-year lease agreement and is payable solely from the payments on the underlying loan. Upon repayment of the loan, ownership of the acquired facilities transfers to the Boeing Company. The Authority is not obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

## NOTE 9 - 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 2008 the Port Authority contracted with several different insurance providers for various insurance coverage's, as follows:

| Insurance Provider | Coverage | Deductible |
|---|---|---|
| Affiliated FM | Property Casualty, Bridge, Terrorism | $0 per occurrence |
| American Alternative Insurance Corp. | Commercial Umbrella | $5,000,000 coverage |
| Hartford Fire Insurance Company (National Flood Services) | Flood | $500 per occurrence/over $500,000 |

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 10 - 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 basic financial statements.

As of December 31, 2008, there were four series of Industrial Revenue Bonds issued. Three were issued on behalf of Licking Memorial Hospital, two with Chase Bank, the third with Fifth Third Bank. The third was issued on behalf of the Family YMCA of Lancaster and Fairfield County with National City Bank. The three issues totaled $31.2 million dollars.

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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 financial statements of the Heath-Newark-Licking County Port Authority (the "Authority") as of and for the year ended December 31, 2008, and have issued our report thereon dated June 17, 2009. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted a certain matter that we reported to the Authority's management in a separate letter dated June 17, 2009.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under Government Auditing Standards.

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

S. R. Snodgrass, A.C.

Steubenville, Ohio
June 17, 2009

Mary Taylor, CPA
Auditor of State

**HEATH NEWARK LICKING COUNTY 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 25, 2009**

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