HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY

HEATH, OHIO

AUDIT REPORT

DECEMBER 31, 2011

Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Health-Newark-Licking County Port Authority, Licking County, prepared by S.R. Snodgrass, A.C., for the audit period January 1 through December 31, 2011. 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 Health-Newark-Licking County Port Authority is responsible for compliance with these laws and regulations.

Dave Yost
Auditor of State

September 12, 2013

88 East Broad Street, Fifth Floor, Columbus, Ohio 43215-3506
Phone: 614-466-4514 or 800-282-0370 Fax: 614-466-4490
www.ohioauditor.gov

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HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
LICKING COUNTY

TABLE OF CONTENTS

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Heath-Newark-Licking County Port Authority (the "Port Authority") as of and for the year ended December 31, 2011, which collectively comprise the Port Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 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 our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Heath-Newark-Licking County Port Authority as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

S. R. Snodgrass, A.C. • 980 National Road • Wheeling, West Virginia 26003-6400 • Phone: (304) 233-5030 • Facsimile: (304) 233-3062

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

S. R. Snodgrass, A.C.

Wheeling, West Virginia
June 27, 2013

The discussion and analysis of the Heath-Newark-Licking County Port Authority, Licking County (the Port Authority) financial performance provides an overall review of the Port Authority's financial activities for the year ended December 31, 2011. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

Financial Highlights

Key financial highlights for 2011 are as follows:

- The total net assets of the Port Authority increased $41,469.
- Total operating and nonoperating revenues for 2011 were $3,674,276. This represents a decrease of $416,373, or 10 percent from 2010.
- Total outstanding debt during the year decreased $615,840 to $5,186,377 and is attributed to the payment of principal on outstanding debt.
- The overall cash position of the Port Authority decreased $557,448.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the Port Authority as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net assets and statement of revenues, expenses, and changes in net assets provide information about the activities of the Port Authority as a whole, presenting both an aggregate view of the Port Authority's finances and a longer-term view of those finances.

Reporting the Port Authority as a Whole

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

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets answer the question, "How did we do financially during 2011?" These statements present all assets and liabilities both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private – sector companies. The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

These two statements report the Port Authority's net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the Port Authority as a whole, the financial position of the Port Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Reporting the Port Authority's Most Significant Fund

Proprietary Funds

The Port Authority maintains one proprietary fund, an enterprise fund.

Summary of Net Assets

The table below provides a summary of the Port Authority's net assets for 2011 and 2010:

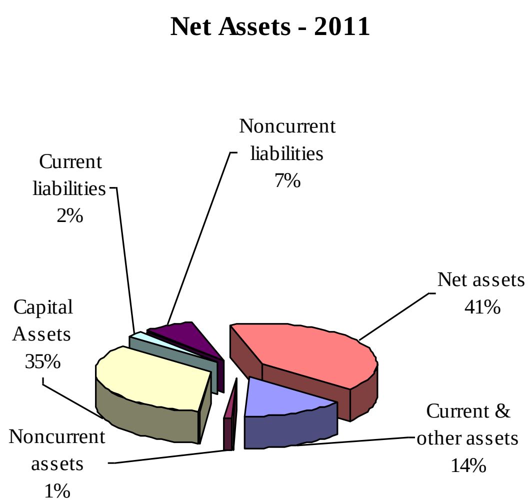
	2011	2010
Assets		
Current and other assets	$ 9,008,900	$ 9,720,427
Noncurrent assets	621,211	2,780,815
Capital assets	21,502,635	19,616,902
Total assets	$ 31,132,746	$ 32,118,144
Liabilities		
Current liabilities	$ 1,405,422	$ 1,582,752
Noncurrent liabilities	4,429,665	5,279,202
Total liabilities	$ 5,835,087	$ 6,861,954
Net Assets		
Invested in capital assets, net of related debt	$ 16,316,258	$ 16,107,235
Unrestricted	8,981,401	9,148,955
Total net assets	$ 25,297,659	$ 25,256,190

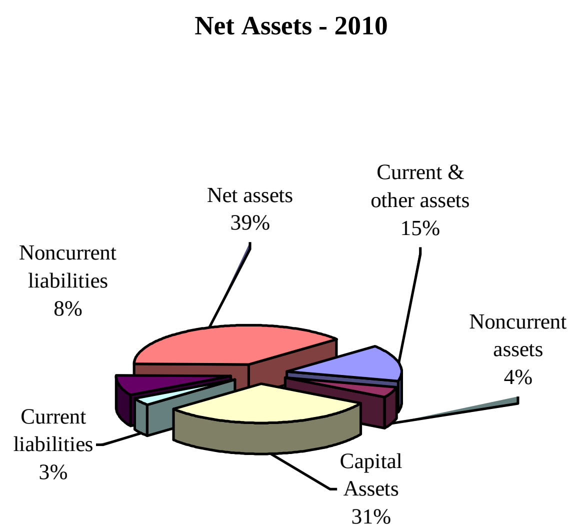
Over time, net assets can serve as a useful indicator of a government's financial position. At December 31, 2011, the Port Authority's assets exceeded liabilities by $25,297,659.

Capital assets represent the largest portion of the Port Authority's net assets. At year-end, capital assets represented 69 percent of total assets. Capital assets include land, land improvements, infrastructure, furniture and fixtures, machinery and equipment, and vehicles. Capital assets, net of related debt to acquire these assets at December 31, 2011, were $16,316,258. These capital assets are used to provide services and are not available for future spending. Although the Port Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net assets of $8,981,401 may be used to meet the Port Authority's ongoing obligations.

Summary of Net Assets (Continued)





Summary of Revenues and Expenses:

The table below provides a summary of the Port Authority's revenues and expenses for 2011 and 2010:

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Summary of Revenues and Expenses (Continued)

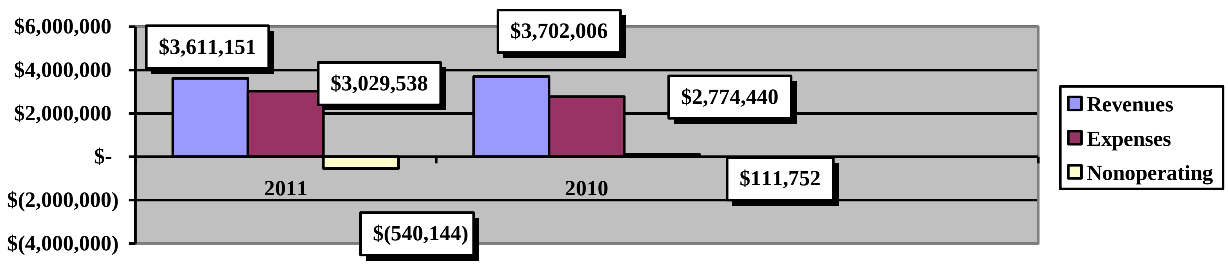
	2011	2010
Revenues		
Charges for services	$ 3,553,097	$ 3,673,559
Other operating revenues	58,054	28,447
Total revenues	3,611,151	3,702,006
Expenses		
Personal services	839,884	848,176
Materials and supplies	121,626	68,667
Contractual services	1,263,094	1,080,554
Depreciation	804,934	777,043
Total expenses	3,029,538	2,774,440
Operating income	581,613	927,566
Nonoperating Revenues (Expenses)		
Insurance recovery	-	315,000
Intergovernmental grants	-	-
Investment earnings	26,611	67,993
Loss on disposal of capital assets	(236,204)	(110,201)
Capital asset donation	(119,783)	-
Interest and fiscal services	(242,728)	(162,358)
Other nonoperating revenues	36,514	5,650
Other nonoperating expenses	(4,554)	(4,332)
Total nonoperating revenues (expenses)	(540,144)	111,752
Changes in net assets	41,469	1,039,318
Beginning Net Assets	25,256,190	24,216,872
Ending Net Assets	$ 25,297,659	$ 25,256,190

Operating revenues decreased $90,855, while operating expenses increased $255,098, respectively, from 2010. Increases in operating expenses are attributed to higher contractual services and depreciation expense from new and existing capital assets.

Summary of Revenues and Expenses (Continued)

The graph below presents the activity regarding the change in net assets for 2011 and 2010.

Revenues and Expenses



Budgeting Highlights

Although not required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. Budget information is reported to the management of the Board, and modifications may only be made by resolution of the Board.

Capital Assets and Debt Administration

Capital Assets

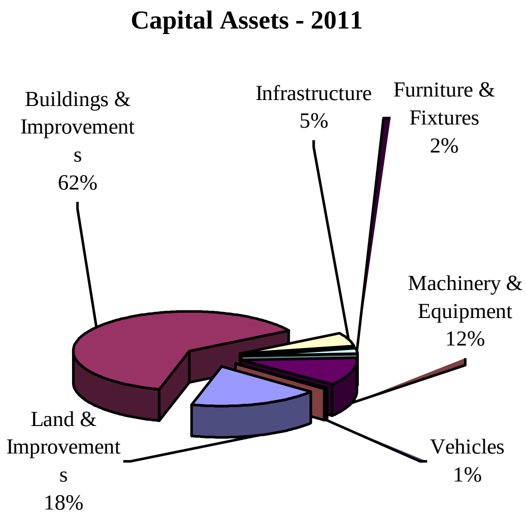
At the end of 2011, the Port Authority had $21,502,635 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows fiscal 2011 balances compared to 2010:

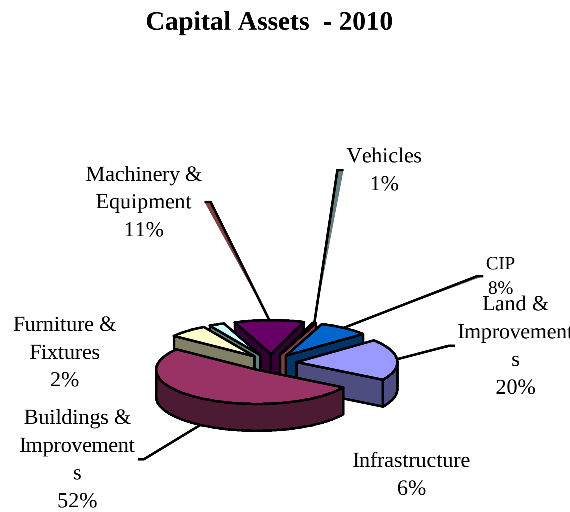
Capital Assets at December 31

	2011	2010
Land and land improvements	$ 5,782,723	$ 5,782,723
Construction in progress	-	2,344,144
Buildings and improvements	19,959,455	15,215,477
Infrastructure	1,702,502	1,898,005
Furniture and fixtures	711,866	707,006
Machinery and equipment	3,693,491	3,237,746
Vehicles	171,977	206,885
Accumulated depreciation	(10,519,379)	(9,775,084)
Totals	$ 21,502,635	$ 19,616,902

Capital Assets (Continued)

The following graph presents the categories of the Port Authority's capital assets reported at cost:





The Port Authority's largest capital asset category is buildings and improvements and represents 62 percent of total capital assets for 2011.

See Note 5 to the basic financial statements for more detail on the Port Authority's capital assets.

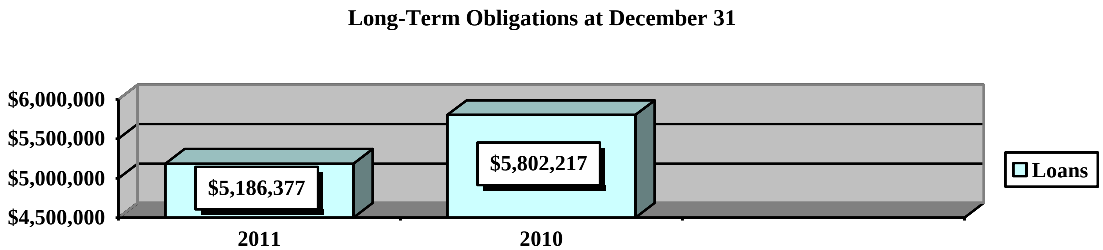
Debt Administration

The Port Authority had the following long-term obligations outstanding at December 31, 2011 and 2010:

	2011	2010
Boeing Repair Loan	$ 1,620,761	$ 2,143,745
Recovery Zone Loan	3,565,616	3,658,472
Total long-term obligations	5,186,377	5,802,217
Due within one year	(756,712)	(523,015)
Net long-term obligations	$ 4,429,665	$ 5,279,202

Debt Administration (Continued)

A breakdown of the Port Authority's long-term obligations is as follows for 2011 and 2010:



See Note 8 to the basic financial statements for more detail on the Port Authority's long-term debt obligations.

Economic Conditions and Outlook

Net assets are expected to increase in future years as the Port Authority continues to increase expansion of the base further increasing the local workforce and is evidenced by the opening of the Horton Building during 2011, a LEED Certified building.

Contacting the Port Authority's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Port Authority's finances and to show the Port Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Erin Grigsby, Finance Manager, Heath-Newark-Licking County Port Authority, 851 Irving-Wick Drive West, Heath, OH 43056-6114.

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	2011
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 3,901,265
Investments	5,000,000
Receivables:	
Accounts	926
Interest	2,702
Prepaid items	104,007
Total current assets	9,008,900
NONCURRENT ASSETS	
Loan receivable	483,711
Lease incentive receivable	137,500
Capital assets:	
Land	5,782,723
Construction in progress	-
Depreciable capital assets, net	15,719,912
Total capital assets, net	21,502,635
Total noncurrent assets	22,123,846
TOTAL ASSETS	$ 31,132,746
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 153,407
Accrued wages and benefits	40,446
Intergovernmental payable	96,514
Due to others	14,005
Accrued interest payable	8,107
Unearned revenue	332,185
Compensated absences payable	4,046
Boeing loan - current	556,858
Recovery zone facility bond - current	199,854
Total current liabilities	1,405,422
NONCURRENT LIABILITIES	
Recovery zone facility bond	3,365,762
Boeing loan	1,063,903
Total noncurrent liabilities	4,429,665
TOTAL LIABILITIES	5,835,087
NET ASSETS	
Invested in capital assets, net of related debt	16,316,258
Unrestricted	8,981,401
TOTAL NET ASSETS	$ 25,297,659

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
LICKING COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011
OPERATING REVENUES	
Charges for services - building leases	$ 3,553,097
Other operating revenues	58,054
Total operating revenues	3,611,151
OPERATING EXPENSES	
Personnel services	839,884
Material and supplies	121,626
Contractual services	1,263,094
Depreciation	804,934
Total operating expenses	3,029,538
Operating income	581,613
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	26,611
Interest and fiscal charges	(242,728)
Loss on disposal of capital assets	(236,204)
Capital asset donation	(119,783)
Other nonoperating revenues	36,514
Other nonoperating expenses	(4,554)
Total nonoperating revenues (expenses)	(540,144)
Change in net assets	41,469
NET ASSETS AT BEGINNING OF YEAR	25,256,190
NET ASSETS AT END OF YEAR	$ 25,297,659

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
LICKING COUNTY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	2011
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from leases	$ 3,639,978
Cash received from other operating receipts	58,054
Cash payments to supplies for goods and services	(1,888,951)
Cash payments for employee services and benefits	(832,270)
Net cash provided by operating activities	976,811
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Capital asset donation	(119,783)
Receipts from Boeing facilities pass through loan	6,334
Net cash used in noncapital financing activities	(113,449)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments - Recovery zone facility bond	(92,856)
Principal payments - Boeing lease loan	(522,984)
Interest payments - Boeing lease loan	(120,828)
Interest payments - Recovery zone facility bond	(138,550)
Acquisition and construction of capital assets	(3,048,577)
Proceeds from the sale of assets	30,600
Net cash used in capital and related financing activities	(3,893,195)
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	2,445,762
Interest received	26,623
Net cash provided by investing activities	2,472,385
Net decrease in cash and cash equivalents	(557,448)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,458,713
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,901,265
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 581,613
Adjustments:	
Depreciation	804,934
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	50
(Increase) decrease in prepaid items	805
Increase (decrease) in accounts payable	108,629
Increase (decrease) in contracts payable	(323,554)
Increase (decrease) in accrued wages and benefits	7,157
Increase (decrease) in compensated absences	457
Increase (decrease) in intergovernmental payable	5,072
Increase (decrease) in due to others	(30)
Increase (decrease) in unearned revenue	(208,322)
Net cash provided by operating activities	$ 976,811

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, 2011, 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 Port 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Finance Manager and Chief Executive Officer submit 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 Finance Manager and Chief Executive Officer prepare 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.

3. Appropriations

An annual appropriation resolution must be passed by the Board of Directors for the following year in December. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Process (Continued)

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.

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, certificates of deposit, 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets and Depreciation (Continued)

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

Description	Estimated Lives (in years)
Infrastructure	20 – 50
Buildings	20 – 50
Building improvements	10 – 50
Improvements other than buildings	10 – 20
Vehicles	3 – 15
Furniture and equipment	3 – 25
Computer equipment	3 – 15

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 are 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, consist 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 would consist of monies and other resources, which are restricted to satisfy debt service requirements as specified in debt agreements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Operating Revenue and Expenses

Operating revenues consist primarily of fees for services, rents, and charges for use of Port Authority 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, donations of capital assets, and other nonoperating expenses.

NOTE 2 – POOLED 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 Port Authority 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.

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 5-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;

NOTE 2 – POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

- 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 2 percent and be marked to market daily, and that the term of the agreement must not exceed 30 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).

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 (FDIC), 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 FDIC.

The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105 percent 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 $34,168, and the bank balance was $35,000. Federal depository insurance covered 100 percent of the bank balance.

Investments

The Port Authority reports a certificate of deposit valued at $5,000,000 with original maturity of more than 3 months as investments on the statement of net assets. In addition, the Port Authority maintains an overnight repurchase agreement, which has no credit rating, in the amount of $3,867,097. Of the Port Authority's total investments, 100 percent was invested in repurchase agreements and certificates of deposit.

NOTE 2 – POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS (CONTINUED)

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within 5 years of the 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 3 – 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 off $50,000 of the loan over 10 years at 5.0 percent. 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. The amount of $483,711 was reported as a loan receivable at December 31, 2011.

NOTE 4 – LEASE INCENTIVE RECEIVABLE

The Port Authority modified an existing lease agreement with the Boeing Company for costs associated with the Electrostatically Supported Gyro Navigator Project. As part of this agreement, the Port Authority negotiated a lease incentive and expended $200,000 so this project would be completed in Ohio. This lease will be amortized over the life of the lease and the amount reported as lease incentive receivable at December 31, 2011 totaled $137,500.

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2011:

	Balance 01/01/11	Additions	Deletions	Balance 12/31/11
Nondepreciable Capital Assets				
Land	$ 5,782,723	$ -	$ -	$ 5,782,723
Construction in progress	2,344,144	-	(2,344,144)	-
Total capital assets not being depreciated	8,126,867	-	(2,344,144)	5,782,723
Depreciable Capital Assets				
Buildings and improvements	15,215,477	4,743,978	-	19,959,455
Infrastructure	1,898,005	43,087	(238,590)	1,702,502
Furniture and fixtures	707,006	4,860	-	711,866
Machinery and equipment	3,237,746	455,745	-	3,693,491
Vehicles	206,885	23,260	(58,168)	171,977
Total at historical cost	21,265,119	5,270,930	(296,758)	26,239,291
Accumulated Depreciation				
Buildings and improvements	(6,074,874)	(590,254)	-	(6,665,128)
Infrastructure	(453,865)	(93,102)	2,471	(544,496)
Furniture and fixtures	(678,907)	(7,152)	-	(686,059)
Machinery and equipment	(2,421,234)	(101,665)	-	(2,522,899)
Vehicles	(146,204)	(12,761)	58,168	(100,797)
Total accumulated depreciation	(9,775,084)	(804,934)	60,639	(10,519,379)
Depreciable capital assets, net of accumulated depreciation	11,490,035	4,465,996	(236,119)	15,719,912
Capital Assets, Net	$ 19,616,902	$ 4,465,996	$ (2,580,263)	$ 21,502,635

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Plan Description - The Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over 5 years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the Combined Plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the Traditional Pension Plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the Member-Directed Plan.

NOTE 6 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

OPERS provides retirement, disability, survivor, and death benefits and annual cost of living adjustments to members of the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For 2011, member and contribution rates were consistent across all three plans. The 2011 member contribution rates were 10.00 percent for members. The Port Authority's contribution rate for 2011 was 14.00 percent of covered payroll.

The Port Authority's contribution rate for pension benefits for members in the Traditional Plan for 2011 was 10.00 percent. The Port Authority's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2011, 2010, and 2009 were $51,936, $48,730, and $41,233, respectively; 100 percent has been contributed for 2011, 2010, and 2009.

NOTE 7 – POSTEMPLOYMENT BENEFITS

Plan Description - OPERS maintains a cost-sharing multiple employer defined benefit post-employment healthcare plan, which includes a medical plan, prescription drug program, and Medicare Part B premium reimbursement to qualifying members 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.

To qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 years or more of qualifying Ohio service credit. The Ohio Revised Code 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 Ohio Revised Code.

Disclosures for the healthcare plan are presented separately in the OPERS financial report, which may be obtained by visiting https://www.opers.org/investments/cafr.shtml, writing to OPERS, Attention: Finance Director, 277 E. Town St., Columbus, OH 43215-4642, or by calling (614) 222-5601 or (800) 222-7377.

Funding Policy - The post-employment healthcare plan was established under, and is administered in accordance with, Internal Revenue Code Section 401(h). State statute requires that public employers fund post-employment healthcare through contributions to OPERS. A portion of each employer's contribution to the Traditional or Combined Plans is set aside for the funding of post-employment health care.

NOTE 7 – POSTEMPLOYMENT BENEFITS (CONTINUED)

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2011, local government employers contributed 14.00 percent of covered payroll. Each year, the OPERS' Retirement Board determines the portion of the employer contribution rate that will be set aside for the funding of the post-employment health care benefits. The portion of employer contributions allocated to fund post-employment healthcare for members in the Traditional Plan for 2011 was 4.00 percent. The portion of employer contributions allocated to fund post-employment healthcare for members in the Combined Plan for 2011 was 6.05 percent.

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. Active members do not make contributions to the post-employment healthcare plan.

The Port Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2011, 2010, and 2009 were $20,774, $21,793, and $29,815, respectively; 100 percent has been contributed for 2011, 2010, and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Board of Trustees on September 9, 2004, was effective January 1, 2007. Member and employer contribution rates for state and local employers increased on January 1 of each year from 2006 to 2008. Rates for law and public safety employers increased over a 6-year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases 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, 2011, were as follows:

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	Due Within One Year
Recovery Zone Loan	3.98%	$ 3,658,472	$ -	($ 92,856)	$ 3,565,616	$ 199,854
Boeing Loan	6.25%	2,143,745	-	(522,984)	1,620,761	556,858
Total long-term debt		$ 5,802,217	$ -	($ 615,840)	$ 5,186,377	$ 756,712

NOTE 8 – LONG-TERM DEBT (CONTINUED)

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 Port 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.

During 2009, the Port Authority entered into a $2,759,461 five-year loan at an interest rate of 6.25 percent for the purpose of facilitating the asbestos abatement project with the Boeing Company. The loan is collateralized by lease revenues received by the Port Authority.

The Port Authority received authorization to secure a Recovery Zone Facility Revenue Loan in an amount not to exceed $4,760,000 for the purpose of constructing commercial offices on the Port Authority Premises. This loan shall initially bear interest at a 5-year interest rate of 3.98 percent until the first interest period reset, and the maturity shall not exceed 15 years.

The total principal and interest requirements to retire the Port Authority's outstanding debt:

	Boeing Lease Premises Loan		Recovery Zone Facility Revenue Loan	
Year	**Principal**	**Interest**	**Principal**	**Interest**
2012	$ 556,858	$ 86,960	$ 199,854	$ 103,518
2013	593,467	50,351	213,941	130,075
2014	470,436	12,482	222,613	121,403
2015	-	-	231,637	112,379
2016	-	-	240,727	103,289
2017-2021	-	-	1,359,854	360,495
2022-2026	-	-	1,096,990	78,127
Totals	$1,620,761	$149,793	$3,565,616	$1,009,286

NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP

Prior to 2009, the Port Authority belonged to the Ohio Government Risk Management Plan (the "Plan"), a non-assessable, unincorporated, non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan was legally separate from its member governments.

On January 1, 2009, through an internal reorganization, the Plan created three separate non-profit corporations including:

- Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Risk Management Plan;
- Ohio Plan Healthcare Consortium, Inc. (OPHC) - formerly known as the Ohio Healthcare Consortium; and
- Ohio Plan, Inc. - mirrors the oversight function previously performed by the Board of Directors. The Board of Trustees consists of eleven (11) members that include appointed and elected officials from member organizations.

NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP (CONTINUED)

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine, and other coverages to its members sold through 14 appointed independent agents in the State of Ohio. These coverage programs, referred to as Ohio Plan Risk management ("OPRM"), are developed specific to each member's risk management needs, and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 40 percent (17.5 percent through October 31, 2010, and 15 percent through October 31, 2009,) of the premium and losses on the first $250,000 casualty treaty and 10 percent of the first $1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 761 and 725 members as of December 31, 2010 and 2009, respectively. The Port Authority does participate in this coverage.

The Plan formed the Ohio Plan Healthcare Consortium ("OPHC"), as authorized by Section 9.833 of the Ohio Revised Code. The OPHC was established to provide cost effective employee benefit programs for Ohio political sub-divisions and is a self-funded, group purchasing consortium that offers medical, dental, vision, and prescription drug coverage, as well as life insurance for its members. The OPHC is sold through 17 appointed independent agents in the State of Ohio. Coverage programs are developed specific to each member's healthcare needs and the related premiums for coverage are determined through the application of uniform underwriting criteria. Variable plan options are available to members. These plans vary primarily by deductibles, coinsurance levels, office visit co-pays, and out-of pocket maximums. OPHC had 65 and 60 members as of December 31, 2010 and 2009, respectively. The Port Authority does not participate in this coverage.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities, and retained earnings at December 31, 2010 and 2009, (the latest information available), and include amounts for both OPRRM and OPHC.

	2010		2009	
	OPRM	OPHC	OPRM	OPHC
Assets	$12,036,541	$ 1,355,131	$ 11,176,186	$ 1,358,802
Liabilities	(4,845,056)	(1,055,096)	(4,852,485)	(1,253,617)
Members' Equity	$ 7,191,485	$ 300,035	$ 6,323,701	$ 105,185

You can read the complete audited financial statements for OPRM and OPHC at the Plan's website, www.ohioplan.org.

NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP (CONTINUED)

During 2011, the Port Authority contracted with several different insurance providers for various insurance coverages, 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 of Ohio, 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, 2011, there were two series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of $11,384.473.

Snodgrass
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S 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 "Port Authority") as of and for the year ended December 31, 2011, and have issued our report thereon dated June 27, 2013. We have 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the Port Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Port 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 Port Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Port Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or a combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the Port Authority's financial statements will not be prevented, or detected and timely corrected.

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

S. R. Snodgrass, A.C. • 980 National Road • Wheeling, West Virginia 26003-6400 • Phone: (304) 233-5030 • Facsimile: (304) 233-3062

Compliance and Other Matters

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

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.

Wheeling, West Virginia
June 27, 2013

Dave Yost • 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
SEPTEMBER 24, 2013