HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY

HEATH, OHIO

AUDIT REPORT

DECEMBER 31, 2012

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, 2012. 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

Dave Yost
Auditor of State

September 12, 2013

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HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
LICKING COUNTY

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SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Heath-Newark-Licking County Port Authority (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include Management's Discussion and Analysis, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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 Authority) financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2012. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

Financial Highlights

Key financial highlights for 2012 are as follows:

- The total net position of the Authority increased $909,892.

- Total operating and nonoperating revenues for 2012 were $3,902,946. This represents an increase of $228,670, or 6 percent from 2011.

- Total outstanding debt during the year decreased $962,273 to $4,224,104 and is attributed to the payment of principal on outstanding debt.

- The overall cash position of the Authority decreased $333,479.

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

Reporting the Authority as a Whole

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

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position answer the question, "How did we do financially during 2012?" 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 Authority's net position and changes in overall financial position. This change in net position is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

Reporting the Authority's Most Significant Fund

Proprietary Fund

The Authority maintains one proprietary fund, an enterprise fund.

Summary of Net Position

The table below provides a summary of the Authority's net position for 2012 and 2011:

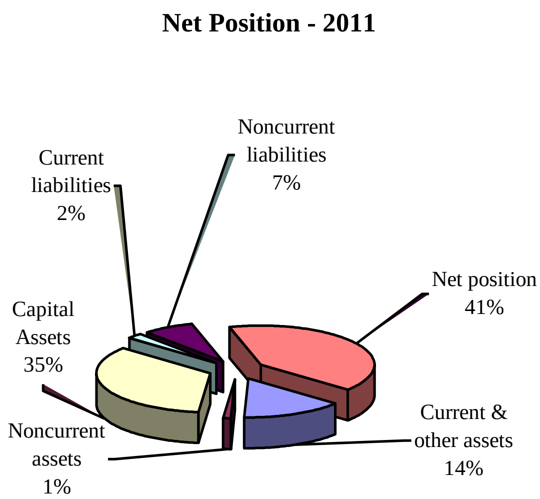
	2012	2011
ASSETS		
Current and other assets	$ 8,751,939	$ 9,008,900
Noncurrent assets	566,424	621,211
Capital assets	21,762,161	21,502,635
Total assets	$ 31,080,524	$ 31,132,746
LIABILITIES		
Current liabilities	$ 1,447,693	$ 1,405,422
Noncurrent liabilities	3,425,280	4,429,665
Total liabilities	4,872,973	5,835,087
NET POSITION		
Net investment in capital assets	17,538,057	16,316,258
Unrestricted	8,669,494	8,981,401
Total Net Position	$ 26,207,551	$ 25,297,659

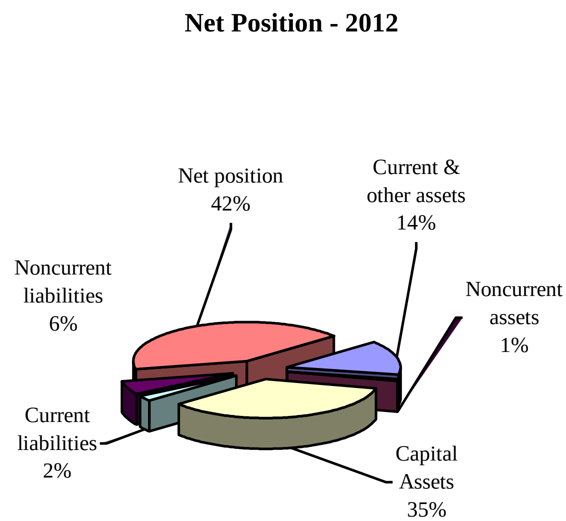
Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2012, the Authority's assets exceeded liabilities by $26,207,551.

Capital assets represent the largest portion of the Authority's net position. At year-end, capital assets represented 70 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, 2012, was $17,538,057. These capital assets are used to provide services and are not available for future spending. Although the 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 position of $8,669,494 may be used to meet the Authority's ongoing obligations.

Summary of Net Position (Continued)





Summary of Revenues and Expenses

The table below provides a summary of the Authority's revenues and expenses for 2012 and 2011:

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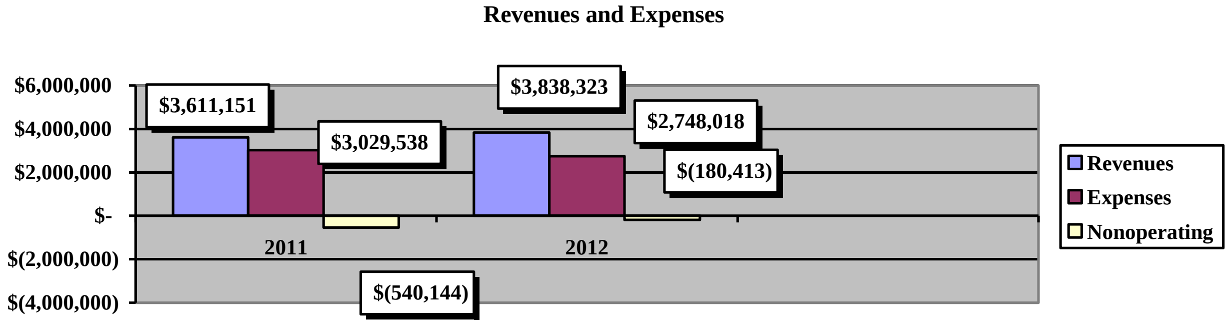
	2012	2011
Operating Revenues:		
Charges for services	$ 3,837,916	$ 3,553,097
Other operating revenues	407	58,054
Total operating revenues	3,838,323	3,611,151
Operating Expenses:		
Personnel services	821,346	839,884
Materials and supplies	133,719	121,626
Contractual services	869,516	1,263,094
Depreciation	923,437	804,934
Total operating expenses	2,748,018	3,029,538
Operating income	1,090,305	581,613
Nonoperating Revenues (Expenses):		
Intergovernmental grants	4,524	-
Investment earnings	23,962	26,611
Loss on disposal of capital assets	-	(236,204)
Capital asset donation	-	(119,783)
Interest and fiscal services	(226,758)	(242,728)
Other nonoperating revenues	36,137	36,514
Other nonoperating expenses	(18,278)	(4,554)
Total nonoperating revenues (expenses)	(180,413)	(540,144)
Changes in net position	909,892	41,469
BEGINNING NET POSITION	25,297,659	25,256,190
ENDING NET POSITION	$ 26,207,551	$ 25,297,659

Operating revenues increased $227,172, while operating expenses decreased $281,520, respectively, from 2011. Increases in operating revenues are attributed to new tenants and also higher lease revenues received from existing tenants. Lower operating expenses are attributed to lower personnel and contractual related expenses.

The graph below presents the activity regarding the change in net position for 2012 and 2011.



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 2012, the Authority had $21,762,161 (net of accumulated depreciation) invested in land, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows 2012 balances compared to 2011:

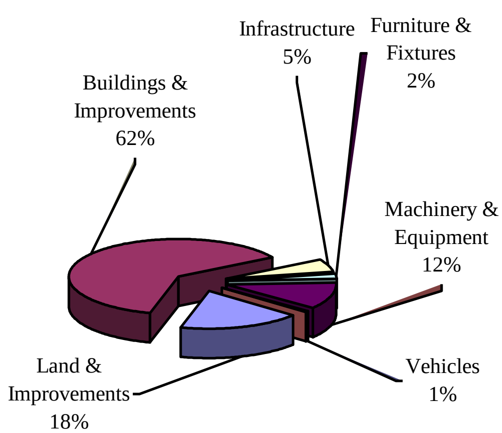
Capital Assets at December 31

	2012	2011
Land and land improvements	$ 6,234,156	$ 5,782,723
Buildings and improvements	19,859,936	19,959,455
Infrastructure	1,312,502	1,702,502
Furniture and fixtures	710,350	711,866
Machinery and equipment	4,216,899	3,693,491
Vehicles	171,977	171,977
Accumulated depreciation	(10,743,659)	(10,519,379)
Totals	$ 21,762,161	$ 21,502,635

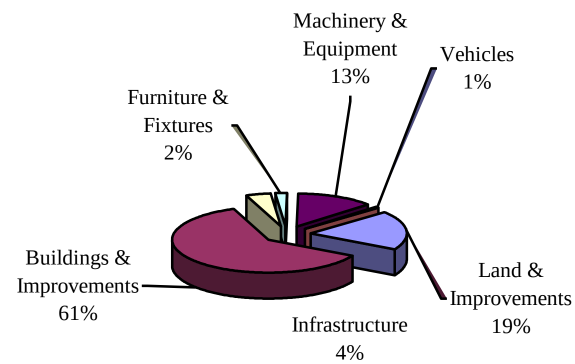
Capital Assets (Continued)

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

Capital Assets - 2011



Capital Assets - 2012



The Authority's largest capital asset category is buildings and improvements, representing 61 percent of total capital assets for 2012 and 62 percent for 2011.

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

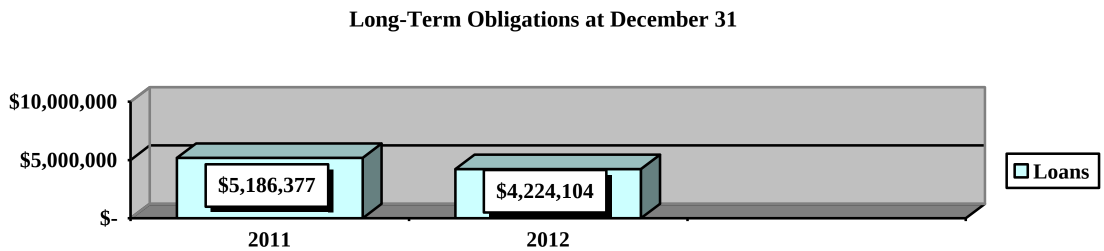
Debt Administration

The Authority had the following long-term obligations outstanding at December 31, 2012 and 2011:

	2012	2011
Boeing Repair Loan	$ 1,063,947	$ 1,620,761
Recovery Zone Loan	3,160,157	3,565,616
Total long-term obligations	4,224,104	5,186,377
Due within one year	(798,824)	(756,712)
Net long-term obligations	$ 3,425,280	$ 4,429,665

Debt Administration (Continued)

A breakdown of the Authority's long-term obligations is as follows for 2012 and 2011:



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

Economic Conditions and Outlook

Net position is expected to increase in future years as the Authority continues to increase expansion of the base further increasing the local workforce along with the Authority's commitment to bring high quality companies to the Licking County area.

Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, 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 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
LICKING COUNTY
STATEMENT OF NET POSITION
DECEMBER 31, 2012

ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	$ 3,567,786
Investments	5,000,000
Receivables:	
Accounts	25,407
Interest	14,383
Intergovernmental	4,524
Prepaid items	139,839
Total current assets	8,751,939
NONCURRENT ASSETS	
Loan receivable	478,924
Lease incentive receivable	87,500
Capital assets:	
Land	6,234,156
Depreciable capital assets, net	15,528,005
Total capital assets, net	21,762,161
Total noncurrent assets	22,328,585
TOTAL ASSETS	$31,080,524
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable	$ 41,120
Contracts payable	124,184
Accrued wages and benefits	39,529
Intergovernmental payable	96,406
Due to others	13,974
Accrued interest payable	6,943
Unearned revenue	324,397
Compensated absences payable	2,316
Boeing loan - current	593,565
Recovery zone facility bond - current	205,259
Total current liabilities	1,447,693
NONCURRENT LIABILITIES	
Recovery zone facility bond	2,954,898
Boeing loan	470,382
Total noncurrent liabilities	3,425,280
TOTAL LIABILITIES	$ 4,872,973
NET POSITION	
Net investment in capital assets	$17,538,057
Unrestricted	8,669,494
TOTAL NET POSITION	$26,207,551

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
LICKING COUNTY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2012

OPERATING REVENUES	
Charges for services - building leases	$ 3,837,916
Other operating revenues	407
Total operating revenues	3,838,323
OPERATING EXPENSES	
Personnel services	821,346
Material and supplies	133,719
Contractual services	869,516
Depreciation	923,437
Total operating expenses	2,748,018
Operating income	1,090,305
NONOPERATING REVENUES (EXPENSES)	
Investment earnings	23,962
Intergovernmental grants	4,524
Interest and fiscal charges	(226,758)
Other nonoperating revenues	36,137
Other nonoperating expenses	(18,278)
Total nonoperating revenues (expenses)	(180,413)
Change in net position	909,892
NET POSITION, BEGINNING OF YEAR	25,297,659
NET POSITION, END OF YEAR	$ 26,207,551

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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from leases	$ 3,831,055
Cash received from other operating receipts	6,350
Cash payments to supplies for goods and services	(1,063,184)
Cash payments for employee services and benefits	(823,993)
Net cash provided by operating activities	1,950,228
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Receipts from Boeing facilities pass through loan	4,787
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal payments - Recovery zone facility bond	(405,459)
Principal payments - Boeing lease loan	(556,814)
Interest payments - Boeing lease loan	(87,004)
Interest payments - Recovery zone facility bond	(140,918)
Acquisition and construction of capital assets	(1,115,367)
Net cash used in capital and related financing activities	(2,305,562)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	17,068
Net decrease in cash and cash equivalents	(333,479)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,901,265
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,567,786
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	$ 1,090,305
Adjustments:	
Depreciation	923,437
Adjustments to reconcile operating income to net cash provided by operating activities:	
(Increase) decrease in accounts receivable	(24,481)
(Increase) decrease in intergovernmental receivable	(4,524)
(Increase) decrease in prepaid items	(35,832)
Increase (decrease) in accounts payable	(112,287)
Increase (decrease) in contracts payable	124,184
Increase (decrease) in accrued wages and benefits	(917)
Increase (decrease) in compensated absences	(1,730)
Increase (decrease) in intergovernmental payable	(108)
Increase (decrease) in due to others	(31)
Increase (decrease) in unearned revenue	(7,788)
Net cash provided by operating activities	$ 1,950,228

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heath-Newark-Licking County Port Authority (the "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."

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, *The Financial Reporting Entity* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards, and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's Governing Board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to, or can otherwise access the organization's resources; or (3) the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt, or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Authority has no component units. The basic financial statements of the reporting entity include only those of the Authority (the primary government).

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.

The financial statements are presented as of December 31, 2012, and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America (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).

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 Authority are included on the statement of net position.

The statement of changes in net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the Authority finances and meets the cash flow needs of its enterprise activity.

D. Basis of Accounting

The 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 its 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 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

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., personnel 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.

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 Authority reports its investments at fair value. Nonparticipating investment contracts (repurchase agreements) and certificates of deposit are reported at cost which approximates fair value.

H. Capital Assets and Depreciation

Capital assets are defined by the 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 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 Position

Net position represents the difference between assets and liabilities. Net investment in capital assets, 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 position 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 Revenues and Expenses

Operating revenues consist primarily of fees for services, rents and charges for use of 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 and various other nonoperating expenses.

NOTE 2 – POOLED CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash resources of the Authority are combined to form a pool of cash and investments. The 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 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 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 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 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 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 Authority's deposits was $20,564, and the bank balance was $35,000. Federal depository insurance covered 100 percent of the bank balance.

Investments

The 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 Position. In addition, the Authority maintains an overnight repurchase agreement, which has no credit rating, in the amount of $3,547,222. Of the 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 settlement date.

Concentration of Credit Risk – The Authority places no limit on the amount the 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 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 Authority's investments, the entire balance is collateralized by underlying securities pledged by the investment's counterparty, not in the name of the Authority.

NOTE 3 – LOAN RECEIVABLE

In 2008, the Authority entered into a 10-year lease agreement with the Boeing Company that included a $500,000 loan. Boeing is making monthly installment payments totaling $50,000 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 terminated early. The amount of $478,924 was reported as a loan receivable by the Authority at December 31, 2012.

NOTE 4 – LEASE INCENTIVE RECEIVABLE

The 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 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, 2012, totaled $87,500.

NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2012:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2012
Nondepreciable Capital Assets				
Land	$ 5,782,723	$ 451,433	$ -	$ 6,234,156
Total nondepreciable capital assets	5,782,723	451,433	-	6,234,156
Depreciable Capital Assets				
Buildings and improvements	19,959,455	221,706	(321,225)	19,859,936
Infrastructure	1,702,502	-	(390,000)	1,312,502
Furniture and fixtures	711,866	-	(1,516)	710,350
Machinery and equipment	3,693,491	568,412	(45,004)	4,216,899
Vehicles	171,977	-	-	171,977
Total at historical cost	26,239,291	790,118	(757,745)	26,271,664
Accumulated Depreciation				
Buildings and improvements	(6,665,128)	(683,308)	320,326	(7,028,110)
Infrastructure	(544,496)	(86,380)	309,650	(321,226)
Furniture and fixtures	(686,059)	(3,308)	2,165	(687,202)
Machinery and equipment	(2,522,899)	(137,478)	67,016	(2,593,361)
Vehicles	(100,797)	(12,963)	-	(113,760)
Total accumulated depreciation	(10,519,379)	(923,437)	699,157	(10,743,659)
Depreciable capital assets, net of accumulated depreciation	15,719,912	(133,319)	(58,588)	15,528,005
Capital Assets, Net	$ 21,502,635	$ 318,114	$ (58,588)	$ 21,762,161

NOTE 6 - DEFINED BENEFIT PENSION PLANS

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (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 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 member and (vested) employer contributions plus any investment earnings; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, 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 Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

The Ohio Revised Code provides statutory authority for member and employer contributions. For 2012, member and employer contribution rates were consistent across all three plans. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Plan.

Funding Policy – The Authority and covered employees contribute at actuarially determined rates for 2012, 14 percent and 10 percent, respectively, of covered employee payroll to OPERS. The Authority's contributions to OPERS for the years ended December 31, 2012, 2011, and 2010, were $54,265, $51,936, and $48,730, respectively. Required contributions are equal to 100 percent of the dollar amount billed for 2012, 2011, and 2010.

NOTE 7 – POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (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 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 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.

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 meets the definition of an Other Post Employment Benefit as described in GASB Statement No. 45.

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

NOTE 7 – POSTEMPLOYMENT BENEFITS (CONTINUED)

OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting https://www.opers.org/investments/cafr.shtml, by writing to OPERS, 277 East Town Street, Columbus, OH 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code 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 coverage.

Employer contribution rates are expressed as percentages of the covered payroll of active members. For 2012, state and local employers contributed a rate of 14.00 percent of covered payroll. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active members do not make contributions to the OPEB Plan.

OPERS' Post-Employment Health Care Plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside for funding of post-employment heath care benefits. The portion of employer contributions allocated to health care for members in the Traditional Plan was 4.0 percent during calendar year 2012. The portion of employer contributions allocated to health care for members in the Combined Plan was 6.05 percent during calendar year 2012. Effective January 1, 2013, the portion of the employer contributions allocated to health care was lowered 1 percent for both plans, as recommended by the OPERS Actuary. The OPERS Board of Trustees is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care benefits provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The Authority's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2012, 2011, and 2010 were $21,706, $21,793, and $29,815. Contributions for 2012, 2011, and 2010 were 100 percent.

NOTE 8 – LONG-TERM DEBT

Long-term debt obligations of the Authority at December 31, 2012, were as follows:

	Interest Rate	Balance 01/01/12	Additions	Reductions	Balance 12/31/12	Due Within One Year
Recovery Zone Loan	3.98%	$ 3,565,616	$ -	($ 405,459)	$ 3,160,157	$ 205,259
Boeing Loan	6.25%	1,620,761	-	(556,814)	1,063,947	593,565
Total Long-Term Debt		$ 5,186,377	$ -	($ 962,273)	$ 4,224,104	$ 798,824

NOTE 8 – LONG-TERM DEBT (CONTINUED)

In 2008, the 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.

During 2009, the 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 Authority.

The 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 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 Authority's outstanding debt:

	Boeing Lease Premises Loan		Recovery Zone Facility Revenue Loan	
Year	Principal	Interest	Principal	Interest
2013	$ 593,565	$ 50,351	$ 205,259	$ 119,118
2014	470,382	12,482	208,984	115,394
2015	-	-	217,575	106,803
2016	-	-	226,235	98,143
2017	-	-	235,819	88,559
2018-2022	-	-	1,332,533	289,355
2023-2025	-	-	733,752	37,007
Totals	$ 1,063,947	$ 62,833	$ 3,160,157	$ 854,379

NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP

The Authority belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio 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 is legally separate from its member governments.

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.

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

OPRM coverage programs 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 41.5 percent (41.5 percent effective November 1, 2011, 40 percent through October 31, 2011, and 17.5 percent through October 31, 2010,) 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 782 and 761 members as of December 31, 2011 and 2010, respectively.

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 members' 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, 2011 and 2010, (latest information available).

	2011	2010
Assets	$ 12,501,280	$ 12,036,541
Liabilities	(5,328,761)	(4,845,056)
Members' Equity	$ 7,172,519	$ 7,191,485

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

In addition, the Authority contracted with several different insurance providers 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 coverage from coverage in the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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

Worker's Compensation claims are covered through the Authority's participation in the State of Ohio's program. The Authority pays the State Worker's 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 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 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, 2012, there were three series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of $20,296,873.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For 2012, the Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

GASB Statement No. 60 objective is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The implementation of GASB Statement No. 60 had no effect on beginning net position.

GASB Statement No. 62 objective is to incorporate within the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB pronouncements, Accounting Principles Board Opinions, and AICPA Accounting Research Bulletins issued on or before November 30, 1989, which does not conflict with, or contradict GASB pronouncements. The implementation of GASB Statement No. 62 had no effect on beginning net position.

GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. This change was incorporated in the Authority's 2012 financial statements. However, there was no effect on beginning net position.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This change was incorporated in the Authority's 2012 financial statements. However, there was no effect on beginning net position.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues). This change was incorporated in the Authority's 2012 financial statements. However, there was no effect on beginning net position.

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, in accordance with the 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, the financial statements of the business-type activities of the Heath-Newark-Licking County Port Authority (the "Authority") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated June 27, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when in 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Authority's financial statements are free from material misstatement, 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.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

S. R. Snodgrass, A.C.

Wheeling, West Virginia
June 27, 2013

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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