LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2002

Auditor of State
Betty Montgomery

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY

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INDEPENDENT ACCOUNTANTS' REPORT

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

To the Board of Trustees:

We have audited the accompanying basic financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport), a component unit of Lorain County, Ohio, as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lorain County Regional Airport Authority, Lorain County, Ohio, a component unit of Lorain County, Ohio, as of December 31, 2002, and the changes in its financial position and its cash flows for the Proprietary Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2002, the Airport adopted Governmental Accounting Standards Board Statements 34, 37 and 38.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2003 on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Betty Montgomery

Betty Montgomery
Auditor of State

May 16, 2003

The discussion and analysis of the Lorain County Regional Airport Authority's (the Airport) financial performance provides an overview of the Airport's financial activities for the year ended December 31, 2002. The intent of this discussion and analysis is to look at the Airport's financial performance as a whole; readers are encouraged to consider information presented here as well as the basic financial statements to enhance their understanding of the Airport's financial performance.

FINANCIAL HIGHLIGHTS

- ✈ The Airport's net assets increased by $227,153 in 2002. This was mainly due to the receipt of capital grants from the Federal Aviation Administration (FAA) and the Ohio Department of Transportation, Division of Aviation (State).
- ✈ Operating expenses have remained constant, requiring no increase in operating subsidy's by the Lorain County Board of Commissioners (County) for the year.

USING THIS ANNUAL REPORT

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

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

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

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

Table 1 provides a summary of the Airport's net assets for 2002 compared to 2001.

Table 1
NET ASSETS

	2002	2001
ASSETS:		
Current and other assets	$ 425,043	$392,984
Capital assets, net	5,785,137	5,585,203
Total assets	6,210,180	5,978,187
LIABILITIES:		
Current liabilities	123,187	119,099
Long-term liabilities	19,852	19,100
Total liabilities	143,039	138,199
NET ASSETS:		
Invested in capital assets, net of related debt	5,785,137	5,585,203
Restricted for other purposes	121,185	14,986
Unrestricted	160,819	239,799
TOTAL NET ASSETS	$6,067,141	$5,839,988

Total assets increased by $231,993 from 2001 to 2002. The majority of the increase resulted from an increase in capital assets net of depreciation expense of $199,934.

Total liabilities remained stable.

Total net assets increased by $227,153. The majority of the increase resulted from an increase in capital assets net of depreciation expense and related debt of $199,934.

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

Capital Assets:

Land	$2,153,589
Land improvements	5,568,798
Buildings	270,000
Equipment	453,125
Vehicles	408,309
Capital Assets	8,853,821
Less accumulated depreciation	(3,068,684)
Total Capital Assets, Net	$5,785,137

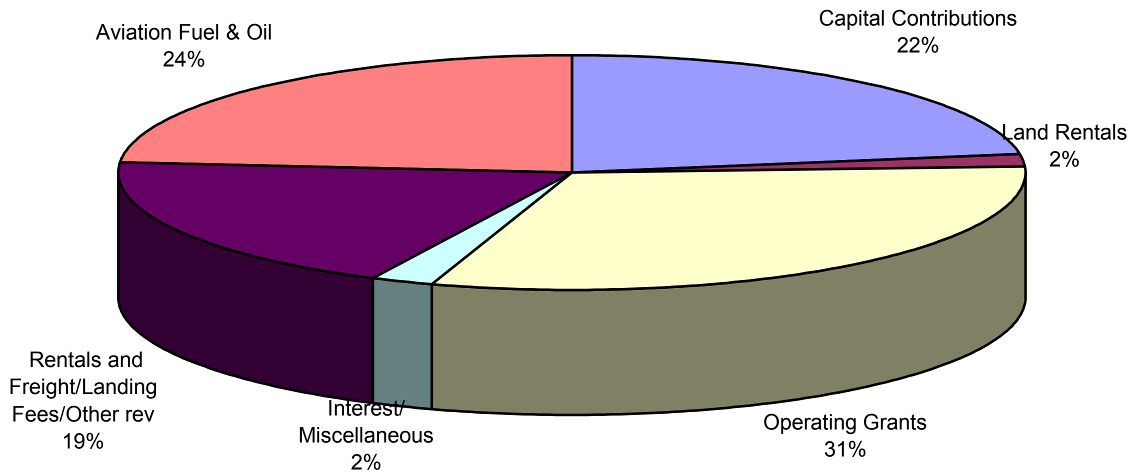
See Notes 2 and 5 to the basic financial statements for further discussion of the Airport's capital asset policy and changes in capital assets.

Tables 2 and 3 show the revenues, expenses, and the changes in net assets for the year ended December 31, 2002. Since this is the first year the Airport has prepared financial statements following GASB 34, revenue and expense comparisons to fiscal year 2001 are not available.

Table 2

REVENUES	
OPERATING REVENUES	
Charges for Services Revenue:	
Aviation fuel & oil income	$ 401,773
Rentals and freight	327,409
Landing fees	10,047
Other operating revenues	19,998
Total operating revenues	759,227
NON-OPERATING REVENUES	
Operating Grants	524,265
Land rentals	27,040
Interest Income	6,711
Miscellaneous Income	1,350
Total non-operating revenue	559,366
CAPITAL CONTRIBUTIONS	381,659
TOTAL REVENUES AND CAPITAL CONTRIBUTIONS	$1,700,252

TOTAL REVENUES AND CAPITAL CONTRIBUTIONS

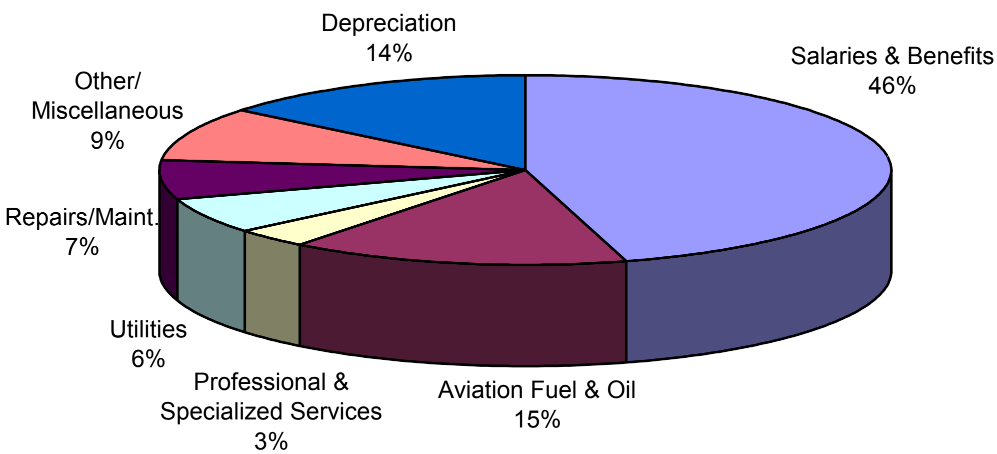


- ✈ Ground rental and use fees include annual increases. The increases are based upon a function of the Consumer Price Index. The Fixed Base Operator (FBO) was not assessed the increase in 2002.
- ✈ Historically, Airport expenses exceed revenues. The County subsidizes the Airport's operating shortfall with the approval of the Airport's annual operating budget. The subsidy by the County for 2002 was $524,265.
- ✈ Capital contributions consisted of grants from the State and the FAA. Grant monies were received for the Airport's Master Plan and Airport Layout Plan (ALP) update, runway and safety area rehabilitation, taxiway improvements, and Industrial Park Development.

Table 3

EXPENSES	
OPERATING EXPENSES	
Salaries and employee benefits	$670,356
Depreciation	207,698
Aviation and fuel oil	220,883
Professional & Specialized Services	49,414
Utilities	88,467
Repairs and Maintenance	99,933
Other Operating Expenses	134,213
Total Operating Expenses	1,470,964
NON-OPERATING EXPENSES	
Miscellaneous expense	2,135
TOTAL EXPENSES	1,473,099
INCREASE IN NET ASSETS	$ 227,153

TOTAL EXPENSES



- Administration and maintenance of the Airport falls under the direction of its Executive Director (Director) and staff. The Airport renewed the Director's contract in 2002. His compensation represents 25% of salaries and benefits. The remaining 75% is made up of other administration and maintenance personnel costs.
- Capital assets are being depreciated using the straight-line method over the estimated useful life of the assets. Annual inspections are performed to evaluate the condition of the assets and the reasonableness of the recorded value.
- All other expenses have remained steady, with no unexpected increases.

OPERATIONAL HIGHLIGHTS

- As part of a $500,000 reimbursement grant awarded by the State, the Airport began development of its Industrial Park with the connection of natural gas service in 2002. The Industrial Park is part of the Airport's overall plan to bring aviation related businesses to Lorain County.
- University Hospitals of Cleveland, in conjunction with CJ Critical Care began operations of MedEvac Emergency and Critical Care Air Transport Service at the Lorain County Regional Airport in September 2002. An EC 135 EMS helicopter, along with a pilot, registered nurse, and EMT are based at the Lorain County Regional Airport 24 hours per day to provide air medical transport.
- Alltel Communications began installation of a switching station at the Lorain County Regional Airport. This will provide high-speed DSL Internet Service to the Airport, its tenants, and some New Russia Township residents.
- The Airport received a perfect score on its Safety Certification Inspection performed by the FAA. The FAA performs the inspection every 18 months.
- The Airport's Engineering Consultant, URS, worked on updating the Airport's Master Plan and ALP in 2002. The Master Plan and ALP will be completed in 2003.
- URS also began design and engineering work for the Airport's Runway and Safety Areas in 2002.

FIXED BASE OPERATION (FBO)

Commencing May 19, 1999, the Airport entered into a month-to-month agreement with the County to operate the County owned Fixed Base Operation (FBO). The County holds title to the FBO Assets, except motor vehicles, which are titled to the Airport. FBO staff members are employees of the Airport.

Per the agreement, the Airport expressly assumes responsibility to maintain the buildings, equipment, fixtures, furnishings, rolling stock, airfield lighting and all other improvements and property constituting the assets, in good condition and repair as necessary to maintain high standards of operation. Should the fulfillment of any of these obligations require the expenditure of funds in excess of the available revenues that the Airport has derived from the operation, then the Airport may request the County to appropriate funds for the fulfillment of those obligations.

The agreement is not intended to obligate the Airport to expend any money other than revenues derived from the operation of the FBO unless the County has appropriated money for that purpose and made the appropriated money available to the Airport.

The Airport agrees to provide to the County a monthly statement of revenues and expenditures related to the FBO not later than the 15th day of the succeeding month.

FUTURE OUTLOOK

- ✈ The Airport submitted an initial operating budget subsidy request to the County in the amount of $467,012 for the year ended December 31, 2003. This amount was 11% less than last year's budget request. After consideration, the County approved an operating subsidy of $300,000 or 64% of the requested amount.

CONTACTING THE AIRPORT'S FINANCIAL MANAGEMENT

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

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Net Assets – Proprietary Fund
For the Year Ended December 31, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	$ 334,202
Accounts receivable	54,026
Inventory	18,394
Prepaid expenses	18,421
Total current assets	425,043
Non-current assets:	
Capital assets:	
Nondepreciable capital assets	2,153,589
Depreciable capital assets, net	3,631,548
Total non-current assets	5,785,137
Total assets	$6,210,180
LIABILITIES	
Current Liabilities:	
Accounts payable	$ 43,817
Accrued expenses	38,596
Compensated absences	40,774
Total current liabilities	123,187
Non-current liabilities:	
Compensated absences	19,852
Total non-current liabilities	19,852
Total liabilities	143,039
NET ASSETS	
Invested in capital assets, net of related debt	5,785,137
Restricted for other purposes	121,185
Unrestricted	160,819
Total net assets	6,067,141
Total Liabilities and Net Assets	$6,210,180

See accompanying notes to the basic financial statements.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
For the Year Ended December 31, 2002

OPERATING REVENUES	
Charges for services	$739,229
Other operating income	19,998
Total operating revenues	759,227
OPERATING EXPENSES	
Salaries and employee benefits	670,356
Depreciation	207,698
Aviation fuel and oil	220,883
Professional and specialized services	49,414
Utilities	88,467
Repairs and maintenance	99,933
Other supplies and expenses	134,213
Total operating expense	1,470,964
Operating loss	(711,737)
NON-OPERATING REVENUES (EXPENSES)	
Operating grants	524,265
Land rentals	27,040
Interest income	6,711
Miscellaneous income	1,350
Miscellaneous expense	(2,135)
Total non-operating revenue (expenses)	557,231
Loss before capital contributions	(154,506)
CAPITAL CONTRIBUTIONS	381,659
NET ASSETS	
Increase (decrease) in Net Assets	227,153
Total Net Assets, beginning of year	5,839,988
Total Net Assets, end of year	$6,067,141

See accompanying notes to the basic financial statements.

LORAIN COUNTY REGIONAL AIRPORT AUTHORITY
LORAIN COUNTY
Statement of Cash Flows – Proprietary Fund
For the Year Ended December 31, 2002

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$746,913
Payments for employee services and benefits	(666,842)
Payments to suppliers for goods and services	(464,755)
Other receipts	19,998
Other payments	(134,213)
Net cash used for operating activities	(498,899)
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES	
Operating grants	524,265
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributions	381,659
Acquisition of capital assets	(407,632)
Other receipts	28,389
Other expenses	(2,135)
Net cash provided by capital and related financing activities	281
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	6,711
Net cash provided by investing activities	6,711
Net increase in cash and cash equivalents	32,358
Cash and cash equivalents – beginning of year	301,844
Cash and cash equivalents – end of year	$334,202
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	$(711,737)
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	207,698
Change in assets and liabilities:	
Receivables	7,684
Inventories	(6,677)
Prepaid insurance	(707)
Accounts and other payables	6,654
Accrued expenses	(1,814)
Net cash used for operating activities	$(498,899)

See accompanying notes to the basic financial statements.

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Note 1. Reporting Entity

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

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

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

Note 2. Summary of Significant Accounting Policies

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

<u>Basis of Presentation</u>
The Airport's financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

The Airport uses a single enterprise fund to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Enterprise fund reporting focuses on the determination of the change in net assets, financial position and cash flows. An enterprise fund may be used to account for any activity for which a fee is charged to external users for goods and services.

Note 2. Summary of Significant Accounting Policies (Continued)

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

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

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

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

Cash and cash equivalents
For purposes of the statement of cash flows, the Airport considers all highly liquid investments with a maturity of three months or less (demand deposits with banks) to be cash equivalents. During 2002, Airport investments were limited to interest bearing deposit accounts.

Net Assets
Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the Airport, or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Airport's policy is to apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. At year end the airport had $121,185 in restricted net assets for other purposes.

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

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

Note 2. Summary of Significant Accounting Policies (Continued)

Inventory
Inventory is recorded at cost on a first-in, first-out basis. Inventory consists of fuel and supplies held for resale.

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

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

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

The Airport's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project, and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2002 no interest costs were incurred on construction projects for the Airport.

Note 3. Changes in Accounting Principle

For 2002, the Airport has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments: Omnibus," and GASB Statement No. 38, "Certain Financial Statement Note Disclosures.

GASB Statement No. 34 establishes new financial reporting requirements for state and local governments throughout the United States for the purpose of enhancing the understandability and usefulness of financial reports. A Statement of Net Assets replaces the Balance Sheet and reports assets, liabilities, and the difference between them as net assets, not equity. A Statement of Revenues, Expenses, and Changes in Net Assets replaces the Statement of Revenues, Expenses, and Changes in Retained Earnings. GASB Statement No. 34 also requires that the Statement of Cash Flows be prepared using the direct method. Under the direct method, cash flows from operating activities are presented by major categories.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the MD&A and the classification of program revenues.

GASB Statement No. 38 modifies, establishes and rescinds certain financial statement note disclosures.

Note 3. Changes in Accounting Principle (Continued)

The impact of implementing GASB Statements Nos. 34, 37, and 38 resulted in changes in the presentation of the financial statements and providing additional information in the notes to the basic financial statements.

Note 4. Deposits

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

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

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

1. U.S. Treasury Notes, Bills, Bonds, or any other obligation or security issued by the U.S. Treasury or any other obligation guaranteed as to principal and interest by the U.S. Treasury;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligation of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and,
6. The State Treasurer's investment pool (STAROhio).

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Airport, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Note 4. Deposits (Continued)

Payment for investments may be made only upon delivery of the securities representing the investments to the Airport or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

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

At year-end, the carrying amount of the Airport's deposits was $334,202 (which includes petty cash of $650) and the bank balance was $330,556. Of the bank balance, $100,000 was covered by federal depository insurance and $230,556 was uncollateralized and uninsured. Although the securities were held by the pledging financial institutions trust department or agent in the Airport's name and all Ohio Revised Code requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the Airport to a successful claim by the FDIC.

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

Note 5. Changes in Capital Assets

Capital asset activity for the year ended December 31, 2002 was as follows:

	Balance 12/31/01	Additions	Deletions	Balance 12/31/02
Capital Assets, not being depreciated:				
Land	$2,153,589	-	-	$2,153,589
Capital Assets, being depreciated:				
Land Improvements	5,197,503	$371,295	-	5,568,798
Buildings	258,149	11,851	-	270,000
Equipment	428,639	24,486	-	453,125
Vehicles	408,309	-	-	408,309
Total Capital Assets being depreciated	6,292,600	407,632	-	6,700,232
Less Accumulated Depreciation:				
Land Improvements	(2,358,984)	(142,979)	-	(2,501,963)
Buildings	(90,858)	(7,184)	-	(98,042)
Equipment	(304,868)	(21,929)	-	(326,797)
Vehicles	(106,276)	(35,606)	-	(141,882)
Total Accumulated Depreciation	(2,860,986)	(207,698)	-	(3,068,684)
Capital Assets, Net	$5,585,203	$199,934	-	$5,785,137

Note 6. Receivables

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

Note 7. Lease of Premises

Various lease agreements have been entered into for office, hangar, and land rental through December 1, 2018, with options to extend the lease terms. Future base rental income for the leases as of December 31, 2002 is as follows:

2003	$ 60,880
2004	60,880
2005	28,852
2006	11,052
2007	11,052
Thereafter	103,547

A 99 year lease agreement has also been entered into for land rental of three parcels of land totaling 2.7105 acres through the year 2078 and is renewable forever. The lease provides for a base ground rental use of $7,289 adjusted upward yearly by a function of the Consumer Price Index. For the year ended December 31, 2002 rental income was $8,935.

Various lease agreements have been entered into for office and hangar space on a month-to-month basis. Rental income from these rentals was $270,886 for the year ended December 31, 2002.

Note 8. Compensated Absences

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

At December 31, 2002 the liability for accrued vacation leave and sick leave is approximately $60,626.

Note 9. Pension Plan

All Airport employees participate in the Ohio Public Employees Retirement System (OPERS) a cost sharing, multiple-employer public employee retirement system administered by the Ohio Public Employees Retirement Board. OPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefits is provided by Ohio Revised Code Section 145. OPERS issues a stand-alone financial report which may be obtained by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling 1-800-222-7377.

Note 9. Pension Plan (Continued)

Plan members are required to contribute 8.5% of their annual covered salary and the Airport is required to contribute an actuarially determined rate. The Ohio Revised Code provides statutory authority for contribution requirements of plan members and the Airport. The Airport's contribution to OPERS for the years ending December 31, 2002, 2001 and 2000 was $70,676, $74,050 and $44,020 respectively, equal to the required contributions for those years.

Note 10. Other Post Employment Benefits (OPEB)

In addition to the pension benefits described in Note 9, OPERS provides post retirement health care coverage, in accordance with the Ohio Revised Code, to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Post Employment Benefit as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. For the calendar year 2002 Airport contributions, equal to 5.00% of covered payroll was used to fund health care expenses.

OPEB is financed through employer contributions and investment earnings there on. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. The actuarial value of OPERS net assets available for OPEB at December 31, 2001 was $11.6 billion.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were $16.4 billion and $4.8 billion respectively. The number of active contributing participants was 402,041.

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

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

Note 11. Risk Management

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

Note 12. Contingent Liabilities

The Airport receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to the grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Airport as of December 31, 2002.

Note 13. Subsequent Event

For fiscal year 2003, the County has currently approved an operating subsidy of $300,000, which is $224,265 less than the subsidy received for fiscal year ended December 31, 2002.

Auditor of State
Betty Montgomery

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

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

To the Board of Trustees:

We have audited the basic financial statements of the Lorain County Regional Airport Authority, Lorain County, Ohio, (the Airport), a component unit of Lorain County, Ohio as of and for the year ended December 31, 2002, and have issued our report thereon dated May 16, 2003, wherein we noted the Airport adopted Governmental Accounting Standards Board Statements 34, 37, and 38. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report that we have reported to management of the Airport in a separate letter dated May 16, 2003.

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

Betty Montgomery

Betty Montgomery
Auditor of State

May 16, 2003

Auditor of State
Betty Montgomery

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LORAIN COUNTY REGIONAL AIRPORT AUTHORITY

LORAIN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
JUNE 17, 2003