

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

BASIC FINANCIAL STATEMENTS

**FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004**



**Auditor of State
Betty Montgomery**

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

We have reviewed the *Independent Auditor's Report* of the Heath-Newark-Licking County Port Authority, Licking County, prepared by S.R. Snodgrass, A.C., for the audit period January 1, 2004 to December 31, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

August 9, 2005

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

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying basic financial statements of the Heath-Newark-Licking County Port Authority as of December 31, 2004, as listed in the table of contents. These basic financial statements are the responsibility of Heath-Newark-Licking County Port Authority's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the Heath-Newark-Licking County Port Authority as of December 31, 2004, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 – 7 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2005 on our consideration of Heath-Newark-Licking County Port Authority's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

S. R. Snodgrass, A.C.

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004**

The discussion and analysis of the Heath-Newark-Licking Port Authority's (the "Authority") financial performance provides an overall review of the Authority's financial activities for the fiscal year ended December 31, 2004. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- Total net assets increased 12%. This increase is consistent with a 15% increase in 2003 but down versus prior years due to increased expenses.
- Unrestricted equity (cash on hand) increased 2.2% in 2004, a pace slower than prior years due to increased investment in capital assets.
- A March 2005 out-of-court settlement of a breach of contract claim with Able Roofing returned \$300,000 to the Port Authority and was classified as operating revenue for 2004.
- Modest increases in building lease revenues and online sales of excess property were realized in 2004.
- Modest decreases in personal services costs versus 2003 were the result of personnel restructuring that was implemented in late 2003.
- The Port Authority invested in a 90-day, consolidated certificate of deposit in late 2004. The net returns of that investment were below anticipated interest earnings on the regular depository accounts as Park National Bank adjusted its interest policies to be aligned with increases in the Federal Reserve Rate.
- A financial policies review was conducted and completed in 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004**

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

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

The following tables represent the Authority's condensed financial information for 2004 and 2003 derived from the statement of net assets and the statement of revenues, expenses, and changes in net assets.

	<u>2004</u>	<u>Restated 2003</u>
Current assets	\$ 9,190,239	\$ 9,432,255
Capital asset, net	<u>14,366,630</u>	<u>14,319,480</u>
Total assets	<u>23,556,869</u>	<u>23,751,735</u>
Current liabilities	3,953,861	3,541,462
Long-term debt outstanding	<u>2,281,352</u>	<u>4,749,137</u>
Total liabilities	<u>6,235,213</u>	<u>8,290,599</u>
Equity:		
Invested in capital assets net of related debt	8,931,280	7,253,592
Unrestricted	<u>8,390,376</u>	<u>8,207,544</u>
Total net assets	<u>\$17,321,656</u>	<u>\$15,461,136</u>

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004**

Changes in Net Assets – The following table shows the changes in net assets for 2004 and 2003:

	<u>2004</u>	<u>Restated 2003</u>
Revenues		
Charges for services – building leases	\$ 5,142,750	\$ 5,091,454
Other operating revenue	<u>347,358</u>	<u>27,266</u>
Total revenues	<u>5,490,108</u>	<u>5,118,720</u>
Expenses		
Personal services	624,470	708,063
Supplies and materials	48,316	43,381
Contractual services	2,078,709	1,327,326
Depreciation	<u>620,526</u>	<u>627,453</u>
Total expenses	<u>3,372,021</u>	<u>2,706,223</u>
Operating income	<u>2,118,087</u>	<u>2,412,497</u>
Nonoperating revenues		
Investment earnings	112,866	108,787
Gain on sale of capital assets	-	33,536
Interest and fiscal charges	<u>(370,433)</u>	<u>(526,739)</u>
Total change in net assets	1,860,520	2,028,081
Beginning net assets	<u>15,461,136</u>	<u>13,433,055</u>
Ending in net assets	<u>\$17,321,656</u>	<u>\$15,461,136</u>

Net assets increased by \$1,860,520. This increase was primarily the result of progress in reduction of the long-term outstanding debt forgiveness as part of the U.S. Air Force Economic Development Conveyance agreement classified as operating revenue.

**HEATH-NEWARK-LICKING COUNTY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2004 the Authority had \$14,366,630 net of accumulated depreciation invested in capital assets. The following table shows 2004 and 2003 balances:

	<u>2004</u>	<u>2003</u>	Increase (Decrease)
Land	\$ 6,066,974	\$ 6,066,974	\$ -
Building and improvements	10,451,693	10,089,739	361,954
Infrastructure	745,067	506,254	238,813
Furniture and fixtures	691,479	691,479	-
Machinery and equipment	2,420,493	2,400,645	19,848
Vehicles	208,940	208,940	-
Construction in progress	11,292	-	11,292
Less: accumulated depreciation	<u>(6,229,308)</u>	<u>(5,644,551)</u>	<u>(584,757)</u>
Totals	<u>\$14,366,630</u>	<u>\$14,319,480</u>	<u>\$ 47,150</u>

The primary increase occurred as a result of capitalization of a major roof replacement project and a major parking lot project.

Additional information on the Authority's capital assets can be found in Note 4.

Debt

The following table summarizes the Authority's debt outstanding as of December 31, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Mortgage promissory note payable	\$2,701,575	\$4,079,515
Revenue bonds payable	2,047,562	2,986,373
Compensated absences	<u>2,265</u>	<u>3,754</u>
Totals	<u>\$4,751,402</u>	<u>\$7,069,642</u>

Additional information on the Port Authority's long-term debt can be found in Note 6.

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2004**

ECONOMIC FACTORS

- The Port Authority contracted in 2004 for a major roadway extension project 70% funded by a state grant. The project represents the first major infrastructure improvements undertaken to a 290-acre tract of land purchased in 2002.
- Existing Port Authority owned buildings were 99.8% leased out as of December 31,2004.
- The Port Authority initiated its first conduit revenue bond financing project outside of Licking County with a \$2 million issuance on behalf of the Family YMCA of Lancaster and Fairfield County.
- The project was undertaken through a cooperative agreement with the Fairfield County Board of Commissioners.
- The five-year lease with Boeing, which expires September 30, 2005, is expected to be renewed through a five-year renewal option. Boeing accounted for 65% of projected 2005 revenue and renewal of the lease will ensure stable revenues for the Port Authority through 2009.
- A five-year lease with Bionetics set to expire September 30, 2005 is under negotiation for renewal.
- Toward the end of 2004, the Port Authority made public discussions with The Boeing Company for a workload expansion which is estimated to bring 35 new jobs and a \$4.2 million investment to Boeing's Heath operations. Over \$2 million in capital improvements and equipment upgrades to the Port Authority-owned facilities are planned.

REQUESTS FOR INFORMATION

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

ASSETS

Current assets:

Cash and cash equivalents	\$ 8,676,971
Receivables	
Accounts	311,986
Interest	20,809
Intergovernmental	4,572
Prepaid items	<u>175,901</u>
Total current assets	<u>9,190,239</u>

Nonaccrual assets:

Capital assets not being depreciated	6,078,266
Capital assets being depreciated, net	<u>8,288,364</u>
Total capital assets	<u>14,366,630</u>
Total assets	<u>23,556,869</u>

LIABILITIES

Current liabilities:

Accounts payable	658,914
Accrued wages and benefits	15,263
Intergovernmental payable	76,323
Customer deposits	1,750
Accrued interest payable	5,960
Unearned revenue	725,601
Compensated absences payable	2,265
Mortgage promissory notes payable – current	1,496,018
Revenue bond payable – current	<u>971,767</u>
Total current liabilities	<u>3,953,861</u>

Noncurrent liabilities:

Mortgage promissory note payable	1,205,557
Revenue bond payable	<u>1,075,795</u>
Total noncurrent liabilities	<u>2,281,352</u>
Total liabilities	<u>6,235,213</u>

Net assets:

Invested in capital assets, net of related debt	8,931,280
Unrestricted	<u>8,390,376</u>
Total net assets	<u>\$17,321,656</u>

See accompanying notes to the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

<u>Operating Revenues:</u>	
Charges for services – building leases	\$ 5,142,750
Other operating revenues	<u>347,358</u>
Total operating revenues	<u>5,490,108</u>
<u>Operating Expenses:</u>	
Personal services	624,470
Materials and supplies	48,316
Contractual services	2,078,709
Depreciation	<u>620,526</u>
Total operating expenses	<u>3,372,021</u>
Operating income (loss)	2,118,087
<u>Nonoperating Revenues (Expenses):</u>	
Investment earnings	112,866
Interest and fiscal charges	<u>(370,433)</u>
Total nonoperating revenues (expenses)	<u>(257,567)</u>
Change in net asset	1,860,520
Net assets at beginning of year	<u>15,461,136</u>
Net assets at end of year	<u>\$17,321,656</u>

See accompanying notes to the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
DECEMBER 31, 2004**

Cash Flows from Operating Activities:

Cash received from customers	\$ 3,563,181
Cash payments for goods and services	(1,874,108)
Cash payments to employees	<u>(647,957)</u>
Net cash provided by operating activities	<u>1,041,116</u>

Cash Flows from Capital and Related Financing Activities:

Acquisition and construction of assets	(667,676)
Principal payment on revenue and bond payable	(938,811)
Interest paid on debt	<u>(87,935)</u>
Net cash used by capital and related financing activities	<u>(1,694,422)</u>

Cash Flows from Investing Activities:

Receipts of interest earnings	<u>92,057</u>
Net cash provided by investing activities	<u>92,057</u>

Net decrease in cash and cash equivalents	(561,249)
Cash and cash equivalents at beginning of year	<u>9,238,220</u>
Cash and cash equivalents at end of year	<u>\$8,676,971</u>

Reconciliation of Operating Income to Net Cash

Provided by Operating Activities:

Operating income	\$2,118,087
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	620,526
Debt payment in lieu of rental revenue	(1,663,170)
Changes in assets and liabilities:	
Increase in accounts receivable	(303,391)
Decrease in intergovernmental receivable	1,871
Decrease in prepaid items	3,096
Increase in accounts payable	375,341
Decrease in accrued wages and benefits	(21,998)
Decrease in intergovernmental payable	(125,520)
Increase in customer deposits	500
Increase in unearned revenue	37,263
Decrease in compensated absences	<u>(1,489)</u>
Total adjustments	<u>(1,076,971)</u>
Net cash provided by operating activities	<u>\$1,041,116</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2004 in lieu of receiving rental payments, \$1,377,940 in principal and \$285,230 in interest were considered paid on the Port Authority's mortgage promissory note payable to the Air Force.

See accompanying notes to the basic financial statements.

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial statements are presented as of December 31, 2004 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting: and Financial Reporting: Standards (GASB Codification).

A. Reporting Entity

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

Based on the foregoing, the Port Authority's financial reporting entity has no component units.

B. Basis of Presentation

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

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
HEATH, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

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

D. Basis of Accounting

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

E. Budgetary Process

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

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

1. Budget

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

2. Estimated Resources

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process (Continued)

3. Appropriations

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

4. Encumbrances

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

5. Lapsing of Appropriations

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

F. Cash and Cash Equivalents

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

G. Investments

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Capital Assets and Depreciation

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

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

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

<u>Description</u>	<u>Estimated Lives (in years)</u>
Machinery, equipment, vehicles, furniture and fixtures	5-20
Buildings	20-25
Improvements other than buildings	25

I. Compensated Absences

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

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
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NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Pensions

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

K. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net assets consist of monies and other resources, which are restricted to satisfy debt service requirements as specified in debt agreements. Restricted net assets also include cash received from the sale of land and passenger facility charges, which are restricted per the Federal Aviation Administration.

L. Net Assets

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

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

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLE

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*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements* were adopted by the Port Authority effective January 1, 2004.

GASB 34 creates new basic financial statements for reporting on the Port Authority's financial activities. The financial statements now include a statement of net assets, statement of revenues, expenses, and changes in net assets, and a statement of cash flows all prepared on the accrual basis of accounting. The net assets beginning of year and end of year amounts for 2004 represent the sum of retained earnings and contributed capital previously reported as of December 31, 2003.

**HEATH-NEWARK-LICKING COUNTY
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE 3 – POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

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

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

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HEATH, OHIO
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2004**

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

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

Deposits:

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

Investments:

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

Deposits

At year end the carrying amount of the Port Authority's deposits was \$8,676,971 and the bank balance was \$8,780,371. Federal depository insurance covered \$100,000 of the bank balance, and all remaining deposits were uninsured and uncollateralized as defined by the GASB because the collateral pledged by the financial institutions or their trust departments or agents was not in the Port Authority's name due to the fact that the pledging bank has an investments and securities pool used to collateralize all public deposits. This method of collateralization is expressly authorized by state statute.

**HEATH-NEWARK-LICKING COUNTY
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NOTE 4 - CAPITAL ASSETS

Proprietary Capital Assets--Summary by Category at December 31, 2004:

Historical Cost:

<u>Class</u>	<u>December 31, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004</u>
Capital assets not being depreciated:				
Land	\$ 6,066,974	\$ -	\$ -	\$ 6,066,974
Construction in progress	-	<u>11,292</u>	-	<u>11,292</u>
Subtotal	<u>6,066,974</u>	<u>11,292</u>	-	<u>6,078,266</u>
Capital assets being depreciated:				
Buildings and improvements	10,089,739	361,954	-	10,451,693
Infrastructure	506,254	238,813	-	745,067
Furniture and fixtures	691,479	-	-	691,479
Machinery and equipment	2,400,645	55,617	(35,769)	2,420,493
Vehicles	<u>208,940</u>	<u>-</u>	<u>-</u>	<u>208,940</u>
Subtotal	<u>13,897,057</u>	<u>656,384</u>	<u>(35,769)</u>	<u>14,517,672</u>
Total cost	<u>\$19,964,031</u>	<u>\$667,676</u>	<u>\$(35,769)</u>	<u>\$20,595,938</u>

Accumulated Depreciation:

<u>Class</u>	<u>December 31, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004</u>
Buildings	\$(2,899,289)	\$(419,248)	\$ -	\$(3,318,537)
Infrastructure	(150,125)	(31,941)	-	(182,066)
Furniture and fixtures	(304,388)	(67,799)	-	(372,187)
Machinery and equipment	(2,138,244)	(88,717)	35,769	(2,191,192)
Vehicles	<u>(152,505)</u>	<u>(12,821)</u>	<u>-</u>	<u>(165,326)</u>
Total depreciation	<u>\$(5,644,551)</u>	<u>\$(620,526)</u>	<u>\$35,769</u>	<u>\$(6,229,308)</u>
Net value	<u>\$14,319,480</u>			<u>\$14,366,630</u>

**HEATH-NEWARK-LICKING COUNTY
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NOTE 5 - DEFINED BENEFIT PENSION PLANS

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

All employees of the Authority participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2004, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2004 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the Authority are established and may be amended by the Public Employees Retirement Board. The Authority's contributions to the Ohio PERS for the years ending December 31, 2004, 2003 and 2002 were \$63,446, \$64,531 and \$60,267, respectively, which were equal to the required contributions for each year.

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2004 employer contribution rate (identified above) that was used to fund health care for the year 2004 was 4.0% of covered payroll which amounted to \$18,729.

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NOTE 5 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System (the "Ohio PERS") (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2003. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2003 was 8.0%. An annual increase of 4.0% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1 % to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 369,885. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2003 is \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures Ohio PERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a 1 Retiree Medical Account that can be used to fund future health care expenses.

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NOTE 6 – LONG-TERM DEBT

Long-term debt obligations of the Port Authority at December 31, 2004 were as follows:

	Balance December 31, <u>2003</u>	<u>Deletions</u>	Balance December 31, <u>2004</u>	Amount Due Within <u>One Year</u>
Long-Term Debt				
Mortgage:				
8.25% Promissory Note 1996	\$4,079,515	\$(1,377,940)	\$2,701,575	\$1,496,018
3.426% Revenue Bond 2003	<u>2,986,373</u>	<u>(938,811)</u>	<u>2,047,562</u>	<u>971,767</u>
Total long-term debt	<u>\$7,065,888</u>	<u>\$(2,316,751)</u>	<u>\$4,749,137</u>	<u>\$2,467,785</u>

A. Principal and Interest Requirements

A summary of the Port Authority future long-term debt funding requirements, including principal and interest payments as of December 31, 2004, follows:

<u>Years</u>	<u>Mortgage</u>		<u>Revenue Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$1,496,018	\$167,151	\$ 971,767	\$ 54,980
2006	1,205,557	41,820	1,005,597	21,150
2007	-	-	<u>70,198</u>	<u>204</u>
Totals	<u>\$2,701,575</u>	<u>\$208,971</u>	<u>\$2,047,562</u>	<u>\$76,334</u>

B. Promissory Note Provisions

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

**HEATH-NEWARK-LICKING COUNTY
PORT AUTHORITY,
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NOTE 7 - RISK MANAGEMENT

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

During 2004 the Port Authority contracted with several different insurance providers for various insurance coverages, as follows:

<u>Insurance Provider</u>	<u>Coverage</u>	<u>Deductible</u>
Chubb Group Insurance Companies	Property Casualty	\$100,000 per occurrence
Greatland Insurance (Kemper Insurance Group)	Bridges	\$25,000 per occurrence
Hartford Fire Insurance Company (National Flood Services)	Flood	\$500 per occurrence
Chubb Group Insurance Co.	Terrorism	\$250,000 per occurrence

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

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

NOTE 8 - CONDUIT DEBT

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

As of December 31, 2004, there were two series of Industrial Revenue Bonds issued one on behalf of Licking Memorial Hospital with Bank One as the sole bond holder, the other on behalf of the Family YMCA of Lancaster and Fairfield Count, totaling \$11.2 million dollars.



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

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

We have audited the general purpose financial statements of Heath-Newark-Licking County Port Authority as of and for the year ended December 31, 2004 and have issued our report thereon dated June 23, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Heath-Newark-Licking County Port Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weaknesses a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

S. R. Snodgrass, A.C.

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



**Auditor of State
Betty Montgomery**

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**HEATH/NEWARK/LICKING CO. PORT AUTHORITY
LICKING COUNTY**

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 23, 2005**