

***Heath-Newark-Licking County
Port Authority***

LICKING COUNTY

GENERAL PURPOSE
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
DECEMBER 31, 2001

Prepared by:
Linda Shook
Fiscal Officer



**Auditor of State
Betty Montgomery**

Board of Directors
Heath-Newark-Licking County Port Authority

We have reviewed the Independent Auditor's Report of the Heath-Newark-Licking County Port Authority, Licking County, prepared by Jones, Cochenour & Co. for the audit period January 1, 2001 through December 31, 2001. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

July 21, 2003

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HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY

**APPOINTED OFFICIALS
AS OF DECEMBER 31, 2001**

<u>BOARD OF DIRECTORS</u>	<u>TITLE</u>	<u>TERM OF OFFICE</u>
Stephen Layman	Chairman	5/00 to 5/04
Mary Jane McDonald	Vice-Chairman	5/98 to 5/02
Jeffrey Crabill	Director	5/00 to 5/04
Ronald W. Sheldon	Director	6/01 to 5/05
Dr. Bob Klingensmith	Director	5/98 to 5/02
Stephen Hoar	Director	5/00 to 5/04
Jan McNemar	Director	5/98 to 5/02
Frank Flynn	Director	5/01 to 5/05
William R. Wilson	Director	5/01 to 5/05

Legal Council

Brickler & Eckler, LLP
100 South Third Street
Columbus, Ohio 43215-4291

Entity Address

851 Irving-Wick Drive West
Heath, Ohio 43056

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY

**ADMINISTRATIVE PERSONNEL
AS OF DECEMBER 31, 2001**

<u>TITLE</u>	<u>APPOINTED/ CONTRACT PERIOD</u>	<u>SURETY</u>	<u>AMOUNT</u>
<u>EXECUTIVE DIRECTOR</u>			
David Cook	(A)	-	-
<u>FINANCIAL OFFICER</u>			
Linda K. Shook	(A)	(B)	\$ 100,000
<u>FINANCIAL ASSISTANT</u>			
Dana S. Logan		(B)	\$ 20,000

(A) Serves at the pleasure of the Board of Directors.

(B) Ohio Government Risk Management Plan.

HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY

**INDEX OF FUNDS
AS OF DECEMBER 31, 2001**

PROPRIETARY

**Facility Operations
Capital Equipment
Capital Improvement**



INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying general purpose financial statements of the Heath-Newark-Licking County Port Authority as of and for the year ended December 31, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Heath-Newark-Licking County Port Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose 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 general purpose financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the general purpose 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, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 5, 2003 on our consideration of the Heath-Newark-Licking County Port Authority'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.

Jones, Cochenour & Co.
June 5, 2003

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
COMBINING BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2001

	Facility Operations	Capital Equipment	Capital Improvement	Totals
Assets:				
Cash and Cash Equivalents	\$6,159,137	\$1,628,413	\$100,028	\$7,887,578
Receivables (net of allowances for doubtful accounts):				
Intergovernmental	271	0	0	271
Prepaid Items	101,468	0	0	101,468
Property, Plant and Equipment	13,285,276	1,675,382	95,427	15,056,085
Less Accumulated Depreciation	(3,138,979)	(1,166,672)	(45,768)	(4,351,419)
Net Fixed Assets	10,146,297	508,710	49,659	10,704,666
Total Assets	<u>\$16,407,173</u>	<u>\$2,137,123</u>	<u>\$149,687</u>	<u>\$18,693,983</u>
Liabilities and Fund Equity:				
Liabilities:				
Accounts Payable	\$22,660	\$275,897	\$0	\$298,557
Accrued Wages and Benefits	27,442	0	0	27,442
Intergovernmental Payable	127,480	0	0	127,480
Customer Deposits	33,595	0	0	33,595
Retainage Payable	0	55,156	15,028	70,184
Deferred Revenue	643,228	37,210	0	680,438
Mortgage Promissory Note Payable	6,517,702	0	0	6,517,702
Total Liabilities	<u>7,372,107</u>	<u>368,263</u>	<u>15,028</u>	<u>7,755,398</u>
Fund Equity:				
Contributed Capital	105,590	0	405,988	511,578
Retained Earnings:				
Reserved for Equipment Replacement	0	1,768,860	0	1,768,860
Unreserved	8,929,476	0	(271,329)	8,658,147
Total Retained Earnings	<u>8,929,476</u>	<u>1,768,860</u>	<u>(271,329)</u>	<u>10,427,007</u>
Total Fund Equity	<u>9,035,066</u>	<u>1,768,860</u>	<u>134,659</u>	<u>10,938,585</u>
Total Liabilities and Fund Equity	<u>\$16,407,173</u>	<u>\$2,137,123</u>	<u>\$149,687</u>	<u>\$18,693,983</u>

The notes to the financial statements are an integral part of this statement.

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	Facility Operations	Capital Equipment	Capital Improvement	Totals
<u>Operating Revenues:</u>				
Charges for Services - Building Leases	\$2,875,341	\$375,804	\$0	\$3,251,145
Other Operating Revenues	14,799	0	0	14,799
Total Operating Revenues	<u>2,890,140</u>	<u>375,804</u>	<u>0</u>	<u>3,265,944</u>
<u>Operating Expenses:</u>				
Personal Services	593,929	0	0	593,929
Materials and Supplies	50,454	0	0	50,454
Contractual Services	1,129,281	892,485	97,307	2,119,073
Depreciation	523,155	313,640	9,782	846,577
Other Operating Expenses	4,437	0	0	4,437
Total Operating Expenses	<u>2,301,256</u>	<u>1,206,125</u>	<u>107,089</u>	<u>3,614,470</u>
Operating Income (Loss)	588,884	(830,321)	(107,089)	(348,526)
<u>Nonoperating Revenues (Expenses):</u>				
Intergovernmental Grant	0	0	25,287	25,287
Investment Earnings	215,167	71,897	0	287,064
Interest and Fiscal Charges	(586,432)	0	0	(586,432)
Gain on Disposal of Fixed Assets	22,335	0	0	22,335
Other Nonoperating Revenue	1,663,170	0	0	1,663,170
Total Nonoperating Revenues (Expenses)	<u>1,314,240</u>	<u>71,897</u>	<u>25,287</u>	<u>1,411,424</u>
Net Income (Loss)	1,903,124	(758,424)	(81,802)	1,062,898
Restated Retained Earnings (Accumulated Deficit) at Beginning of Year	<u>7,026,352</u>	<u>2,527,284</u>	<u>(189,527)</u>	<u>9,364,109</u>
Retained Earnings (Accumulated Deficit) at End of Year	<u><u>\$8,929,476</u></u>	<u><u>\$1,768,860</u></u>	<u><u>(\$271,329)</u></u>	<u><u>\$10,427,007</u></u>

The notes to the financial statements are an integral part of this statement.

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Facility Operations</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>	<u>Totals</u>
<u>Cash Flows from Operating Activities:</u>				
Cash Received from Customers	\$2,793,339	\$381,697	\$0	\$3,175,036
Cash Payments for Goods and Services	(1,227,148)	(825,398)	(108,295)	(2,160,841)
Cash Payments to Employees	(592,468)	0	0	(592,468)
Net Cash Provided (Used) by Operating Activities	<u>973,723</u>	<u>(443,701)</u>	<u>(108,295)</u>	<u>421,727</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>				
Receipts of Intergovernmental Grants	0	0	25,287	25,287
Acquisition and Construction of Assets	(1,152,215)	(214,366)	0	(1,366,581)
Proceeds from Sale of Fixed Assets	22,335	0	0	22,335
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,129,880)</u>	<u>(214,366)</u>	<u>25,287</u>	<u>(1,318,959)</u>
<u>Cash Flows from Investing Activities:</u>				
Receipts of Interest Earnings	215,167	71,897	0	287,064
Net Cash Provided by Investing Activities	<u>215,167</u>	<u>71,897</u>	<u>0</u>	<u>287,064</u>
Net Increase (Decrease) in Cash and Cash Equivalents	59,010	(586,170)	(83,008)	(610,168)
Cash and Cash Equivalents at Beginning of Year	<u>6,100,127</u>	<u>2,214,583</u>	<u>183,036</u>	<u>8,497,746</u>
Cash and Cash Equivalents at End of Year	<u>\$6,159,137</u>	<u>\$1,628,413</u>	<u>\$100,028</u>	<u>\$7,887,578</u>

(Continued)

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<u>Facility Operations</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>	<u>Totals</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided (Used) by Operating Activities:</u>				
Operating Income (Loss)	\$588,884	(\$830,321)	(\$107,089)	(\$348,526)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	523,155	313,640	9,782	846,577
Changes in Assets and Liabilities:				
Decrease in Accounts Receivable	38,704	0	0	38,704
Increase in Intergovernmental Receivable	(271)	0	0	(271)
Increase in Prepaid Items	(20,479)	0	0	(20,479)
Increase (Decrease) in Accounts Payable	(19,317)	43,478	(26,016)	(1,855)
Increase in Accrued Wages and Benefits	1,461	0	0	1,461
Increase in Intergovernmental Payable	1,492	0	0	1,492
Decrease in Customer Deposits	(800)	0	0	(800)
Increase (Decrease) in Retainage Payable	(4,672)	23,609	15,028	33,965
Increase (Decrease) in Deferred Revenue	(134,434)	5,893	0	(128,541)
Total Adjustments	<u>384,839</u>	<u>386,620</u>	<u>(1,206)</u>	<u>770,253</u>
Net Cash Provided (Used) by Operating Activities	<u>\$973,723</u>	<u>(\$443,701)</u>	<u>(\$108,295)</u>	<u>\$421,727</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 2001 in lieu of receiving rental payments, \$1,076,738 in principal and \$586,432 in interest were considered paid on the Port Authority's mortgage promissory note payable to the Air Force. The Facility Operations Fund had outstanding liabilities of \$2,444 for the purchase of certain capital assets.

The notes to the financial statements are an integral part of this statement.

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2001

	<i>Enterprise Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<u>Operating Revenues:</u>			
Charges for Services - Building Leases	\$3,275,357	\$3,160,237	(\$115,120)
Other Operating Revenues	3,000	14,799	11,799
Total Operating Revenues	3,278,357	3,175,036	(103,321)
<u>Operating Expenses:</u>			
Current:			
Personal Services	663,532	592,468	71,064
Materials and Supplies	79,131	51,178	27,953
Contractual Services	3,025,918	2,828,699	197,219
Other Operating Expense	18,000	4,437	13,563
Capital Outlay	1,178,783	1,015,065	163,718
Total Operating Expenses	4,965,364	4,491,847	473,517
Operating Loss	(1,687,007)	(1,316,811)	370,196
<u>Nonoperating Revenues (Expenses):</u>			
Intergovernmental Grants	25,287	25,287	0
Investment Earnings	278,000	287,064	9,064
Proceeds from Sale of Fixed Assets	11,000	22,335	11,335
Total Nonoperating Revenues (Expenses)	314,287	334,686	20,399
Net Income	(1,372,720)	(982,125)	390,595
Retained Earnings at Beginning of Year	7,763,260	7,763,260	0
Prior Year Encumbrances	734,486	734,486	0
Retained Earnings at End of Year	\$7,125,026	\$7,515,621	\$390,595

The notes to the financial statements are an integral part of this statement.

THE HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
HEATH, OHIO
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Heath-Newark-Licking County Port Authority (the "Port Authority") was created on May 18, 1996 under the authority of Section 4582.21 et seq. of the Ohio Revised Code which provides that "a municipal corporation, a county or any combination thereof acting jointly, may create a port authority which shall be a body corporate and politic and have territorial limits coterminous with the territorial limits of the political subdivision(s) creating such port authority." The Port Authority is reported as a proprietary operation in the accompanying General Purpose Financial Statements (the "GPFS").

The accompanying general purpose financial statements of the Port Authority present the financial position of the various funds, the results of operations and the cash flows. The financial statements are presented as of December 31, 2001 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 general purpose 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 but includes all funds that are part of the primary government.

B. Basis of Presentation - Fund Accounting

The Port Authority operates three enterprise funds within the proprietary fund type. The proprietary funds are accounted for on a "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary funds are included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. More specifically, the enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, in which the intent is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

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

C. Budgetary Process

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

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

1. **Budget**

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

2. **Estimated Resources**

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. 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.

The budgetary figures which appear in the "Statement of Revenues, Expenses, and Changes in Retained Earnings--Budget and Actual--Proprietary Funds" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

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.

6. Budgetary Basis of Accounting

The budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenses are recorded. The budgetary basis as provided by law is based upon accounting for certain transactions on the basis of cash receipts and cash disbursements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the enterprise funds:

	Proprietary Funds
Net Income/Excess of Revenues Over <u>Expenses and Operating Transfers</u>	
GAAP Basis (as reported)	\$1,062,898
Adjustments:	
Revenue Accruals	(90,108)
Expense Accruals	(1,392)
Prepaid Items	(20,479)
Capitalized Assets	(1,330,926)
Depreciation	846,577
Encumbrances	(371,957)
Debt Retirements	(1,076,738)
Budget Basis	(\$982,125)

D. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits and repurchase agreements. The Port Authority pools cash for investment and resource management purposes. Each fund's equity in pooled cash, including the investment instruments described above, represents the balance on hand as if each fund maintains its own cash and investments account. For purposes of the statement of cash flows, each fund's share of equity in pooled cash and investments is considered to be a cash equivalent. See Note 4, "Pooled Cash, Cash Equivalents, and Investments."

E. Investments

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market. The cost of inventory items is recorded as expenses in the enterprise funds when used.

G. Fixed Assets and Depreciation

The accounting and reporting treatment applied to fixed assets is as follows:

Property, plant and equipment acquired by the enterprise funds are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Contributed fixed 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	25
Improvements Other Than Buildings	25

Depreciation on enterprise fixed assets is charged to retained earnings.

H. Long-Term Obligations

Long-term liabilities are being repaid from the following fund:

<u>Obligation</u>	<u>Fund</u>
Mortgage	Facility Operations Fund

I. Compensated Absences

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Pensions

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

K. Contributed Capital

Proprietary fund type contributed capital is recorded at the fair market value of the related assets at the date received. Depreciation on contributed fixed assets resulting from contributions from capital grants is recorded as an operating expense and closed along with other operating expenses directly into retained earnings.

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

The deficit of \$271,329 in the Capital Improvement Fund arises from the past recording of intergovernmental grants as contributed capital under the accrual basis of accounting. A deficit does not exist under the cash basis of accounting.

NOTE 3 - RESTATEMENT OF RETAINED EARNINGS

The retained earnings balances at December 31, 2000 of the Facility Operations and Capital Improvement Funds were restated from amounts previously reported to eliminate the reporting of Property, Plant and Equipment below the capitalization threshold, which was increased from \$500 to \$1,000 and to adjust the useful lives of certain fixed assets.

The restatement resulted in adjustments to December 31, 2000 retained earnings as follows:

<u>Description</u>	<u>Facility Operations</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>	<u>Totals</u>
Balance at December 31, 2000 (as reported)	\$7,409,038	\$2,527,284	(\$187,299)	\$9,749,023
Restatement of Property, Plant and Equipment	(382,686)	0	(2,228)	(384,914)
Restated Balance at December 31, 2000	<u>\$7,026,352</u>	<u>\$2,527,284</u>	<u>(\$189,527)</u>	<u>\$9,364,109</u>

NOTE 4 - 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.

NOTE 4 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

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.)

NOTE 4 - POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

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.

A. Deposits

At year end the carrying amount of the Port Authority's deposits was \$1,252,200 and the bank balance was \$1,672,520. 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.

B. Investments

The Port Authority's investments at December 31, 2001 are summarized below:

<u>Categorized Investments</u>	<u>Category 2</u>	<u>Fair Value</u>
Repurchase Agreement	\$6,635,378	\$6,635,378

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the accompanying balance sheet is based on criteria set forth in GASB Statement No. 9. Investments with an original maturity of three months or less are treated as cash and cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the accompanying financial statements and the classifications per items A of this note are as follows:

	<u>Cash and Cash Equivalents</u>	<u>Investments</u>
Per Combined Balance Sheet	\$7,887,578	\$0
Investments:		
Repurchase Agreement	<u>(6,635,378)</u>	<u>6,635,378</u>
Per GASB Statement No. 3	<u>\$1,252,200</u>	<u>\$6,635,378</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

December 31, 2001

NOTE 5 - FIXED ASSETS

Proprietary Fixed Assets--Summary by Category at December 31, 2001:

<u>Category</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$1,499,820	\$0	\$1,499,820
Buildings and Improvements	9,773,079	(2,098,683)	7,674,396
Infrastructure	500,000	(110,000)	390,000
Furniture and Fixtures	758,399	(249,122)	509,277
Machinery and Equipment	2,294,065	(1,674,170)	619,895
Vehicles	230,722	(219,444)	11,278
Total Property, Plant and Equipment	<u>\$15,056,085</u>	<u>(\$4,351,419)</u>	<u>\$10,704,666</u>

NOTE 6 - DEFINED BENEFIT PENSION PLANS

The following information was provided by the Public Employees Retirement System (the PERS of Ohio) 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, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 2001 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.25% to fund the pension and 4.3% 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 PERS of Ohio for the years ending December 31, 2001, 2000 and 1999 were \$60,511, \$57,573 and \$83,057, respectively, which were equal to the required contributions for each year.

The PERS of Ohio 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 PERS of Ohio is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the PERS of Ohio 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 PERS of Ohio. The portion of the 2001 employer contribution rate (identified above) that was used to fund health care for the year 2001 was 4.3% of covered payroll which amounted to \$19,203.

NOTE 6 – DEFINED BENEFIT PENSION PLANS (Continued)

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the PERS of Ohio’s latest actuarial review performed as of December 31, 2000. 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 2000 was 7.75%. An annual increase of 4.75% 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 4.75% base increase, were assumed to range from 0.54% to 5.1%. Health care costs were assumed to increase 4.75% annually.

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants was 411,076. The actuarial value of the PERS of Ohio net assets available for OPEB at December 31, 2000 is \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.6 million and \$2,628.7 million, respectively.

NOTE 7 - LONG-TERM DEBT OBLIGATIONS

Long-term debt obligations of the Port Authority at December 31, 2001 were as follows:

	Balance December 31, 200	Issued (Retired)	Balance December 31, 2001
	<u> </u>	<u> </u>	<u> </u>
Enterprise Long-Term Obligations:			
Mortgage:			
8.25% Promissory Note 1996	\$7,594,440	(\$1,076,738)	\$6,517,702
	<u> </u>	<u> </u>	<u> </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, 2001, follows:

Years	Mortgage	
	Principal	Interest
<u> </u>	<u> </u>	<u> </u>
2002	\$1,169,006	\$494,163
2003	1,269,181	393,989
2004	1,377,939	285,230
2005	1,496,018	167,151
2006	1,205,558	41,820
Totals	<u> </u>	<u> </u>
	\$6,517,702	\$1,382,353

NOTE 7 - LONG-TERM DEBT OBLIGATIONS (Continued)

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.

NOTE 8 - CONTINGENCIES

Under the agreement with the United States Air Force, the Port Authority may be obligated to repay the Air Force for annual base lease charges in excess of cost of up to \$450,000. However, the amount of any future liability is indeterminate and not reported as a liability.

NOTE 9 - CONTRIBUTED CAPITAL

There were no changes in contributed capital as presented below:

	<u>Facility Operations</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>	<u>Total</u>
Balance at December 31, 2001	<u>\$105,590</u>	<u>\$0</u>	<u>\$405,988</u>	<u>\$511,578</u>

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

December 31, 2001

NOTE 10 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The key financial information for the year ended December 31, 2001 for these enterprise activities is as follows:

	<u>Facility Operations</u>	<u>Capital Equipment</u>	<u>Capital Improvement</u>	<u>Total</u>
Operating Revenues	\$2,890,140	\$375,804	\$0	\$3,265,944
Depreciation	523,155	313,640	9,782	846,577
Operating Income (Loss)	588,884	(830,321)	(107,089)	(348,526)
Net Income (Loss)	1,903,124	(758,424)	(81,802)	1,062,898
Property, Plant and Equipment:				
Additions	1,116,560	214,366	0	1,330,926
Deletions	(13,450)	0	0	(13,450)
Assets	16,407,173	2,137,123	149,687	18,693,983
Net Working Capital	5,440,066	1,315,306	100,028	6,855,400
Capital Contributions	0	0	25,287	25,287
Promissory Note Payable	6,517,702	0	0	6,517,702
Total Equity	9,035,066	1,768,860	134,659	10,938,585

NOTE 11 - 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 2001 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>
Zurich American Insurance Group	Property Casualty	\$50,000 per occurrence
Lumbermans Mutual Casualty Company	Bridges	\$25,000
Bankers Insurance Company	Flood	\$500

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.



**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, 2001, and have issued our report thereon dated June 5, 2003. 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 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 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 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 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. However, we noted a matter involving the internal control over financial reporting that we have reported to management of Heath-Newark-Licking County Port Authority in a separate letter dated June 5, 2003.

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.

**Jones, Cochenour & Co.
June 5, 2003**

**HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
CONCLUSION STATEMENT**

The officials of Heath-Newark-Licking County Port Authority elected to waive a post audit conference.



**Auditor of State
Betty Montgomery**

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HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY

LICKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 19, 2003**