PORTAGE COUNTY REGIONAL AIRPORT AUTHORITY
PORTAGE COUNTY

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2004

Auditor of State
Betty Montgomery

PORTAGE COUNTY REGIONAL AIRPORT AUTHORITY
PORTAGE COUNTY

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Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Portage County Regional Airport Authority
Portage County
4039 Nanway Boulevard
Ravenna, OH 44266

To the Board of Trustees:

We have audited the accompanying financial statements of the Portage County Regional Airport Authority, Portage County, Ohio (the Airport), as of and for the year ended December 31, 2004, which collectively comprise the Airport's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Airport's management. Our responsibility is to express opinions 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Portage County Regional Airport Authority, Portage County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Airport will continue as a going concern. As discussed in Note 13 to the financial statements, the Airport has suffered losses from operations and has projected those losses to continue in the future. These conditions raise substantial doubt about the Airport's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2005, on our consideration of the Airport's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Managements Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

Betty Montgomery

Betty Montgomery
Auditor of State

June 29, 2005

The discussion and analysis of the Portage County Regional Airport Authority's (Airport) financial performance provides an overall review of the Airport's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the Airport's financial performance as a whole; readers are encouraged to consider information presented here as well as the basic financial statements to enhance their understanding of the Airport's financial performance.

Financial Highlights

- Total net assets decreased $200,989 which represents a 5.37 percent decrease from 2003.

- Grant revenues increased from $54,551 in 2003 to $343,529 in 2004 due to the Airport receiving new grant monies from the Federal Aviation Administration. The majority of the grant monies will be used to maintain and construct new taxiways for the Airport.

- Total expenses increased from $212,390 in 2003 to $641,661 in 2004 due in large part to an increase of $20,111 in depreciation on the Airport's capital assets and more monies being spent in the personal services and contractual services categories by $7,840 and $405,782 respectively. In 2004, the Airport had a significant increase in contractual services due to increased lawyer fees for the Thickstun Bros. Inc. case.

- Outstanding debt decreased by 1.41 percent from $425,000 to $419,000 in 2004.

Using this Financial Report

This annual report consists of two parts, the MD&A and the basic financial statements. The basic financial statements include a statement of net assets, statement of revenues, expenses and changes in net assets and a statement of cash flows. Since the Airport only uses one fund for its operations, the entity wide and the fund presentations information is the same.

Statement of Net Assets and the Statement of Activities

The view of the Airport as a whole looks at all financial transactions and asks the question, "How did we do financially during 2004?" The Statement of Net Assets and the Statement of Revenues, Expenses, and changes in Net Assets answer this question. These statements include all assets and liabilities, both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resources measurement focus, which is similar to the accounting used by most private-sector companies. This basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid.

These statements report the Airport's net assets, however, in evaluating the overall financial position of the Airport, non-financial information such as changes in the condition of the Airport's capital assets will also need to be evaluated.

Table 1 provides a summary of the Airport's net assets for 2004 compared to 2003.

Table 1
Net Assets

	2004	2003
Assets		
Current and Other Assets	$357,493	$308,258
Capital Assets	3,682,121	3,864,775
Total Assets	4,039,614	4,173,033
Liabilities		
Noncurrent Liabilities	419,000	419,000
Current Liabilities	76,172	8,602
Total Liabilities	495,172	427,602
Net Assets		
Invested in Capital Assets Net of Related Debt	3,682,121	3,858,775
Unrestricted	(137,679)	(113,344)
Total Net Assets	$3,544,442	$3,745,431

The Airport's total net assets were down from a year ago. There was a decrease from $3,745,431 to $3,544,442 or a decrease of $200,989. The decrease is due to an overall increase in expenses and another year of depreciation being taken on the Airport's capital assets.

Current and other assets increased by $49,235. This increase is due mainly to an increase in accounts receivable for user fees and also an increase in cash.

Capital assets decreased $182,654 in 2004. The Airport sold a snow blower which had a book value of $10,855 and the depreciation expense for the year was $172,319.

Table 2 shows the changes in net assets for the year ended December 31, 2004 as well as revenue and expense comparisons to 2003.

Table 2
Revenues and Expenses

	2004	2003
Operating Revenues:		
Charges for Services	$85,910	$93,039
Miscellaneous	7,030	8,295
Non-Operating Revenues:		
Interest	1,058	837
Operating Grants	343,529	54,551
Gain on Sale of Capital Assets	3,145	0
Total Revenues	440,672	156,722
Operating Expenses:		
Personal Services	11,133	3,293
Contractual Services	451,066	45,284
Materials and Supplies	5,663	11,040
Depreciation	172,449	152,338
Non-Operating Expenses:		
Interest and Fiscal Charges	1,350	435
Total Expenses	641,661	212,390
Decrease in Net Assets	(200,989)	(55,668)
Net Assets Beginning of Year	3,745,431	3,801,099
Net Assets End of Year	$3,544,442	$3,745,431

Analysis of Overall Financial Position and Results of Operation

The financial position of the Airport did not improve during the past year. The decrease in net assets needs, perhaps, to be explained more fully in order to better understand the financial picture for 2004. There were several items that affected the Airport adversely that were beyond the control of management. Items that reflected adversely on the overall operations included the collection of airport user fees that were short of expectations, an increase in depreciation of approximately $20,000 and finally, an increase of nearly $406,000 in contractual services, due mainly to lawyer fees for their representation of the Airport in the Thickstun Bros. Inc. case and to consultants who are acting as expert witnesses for the Airport in the same case. For more information on the Thickstun Bros. Inc. case, see Note 11 to the basic financial statements.

Capital Assets

The ending balance of capital assets shows a decrease of $182,654 compared to the prior year. This decrease is due to the sale of a snow blower with a book value of $10,855 and $172,319 in current year depreciation.

	2004	2003
Land	$1,790,996	$1,790,996
Land Improvements	1,822,586	1,974,855
Equipment	68,539	98,924
Totals	$3,682,121	$3,864,775

For more information on the Airport's capital assets, see Note 7 to the basic financial statements.

Debt

The Airport has no bonded indebtedness. The Airport's debt consists of a due to primary government payable with a balance of $419,000. The Airport has been granted a deferment on this loan until 2011 when they contracted to pay $41,900 in principal on this payable annually. For more information on the Airport's debt, see Note 8 to the basic financial statements.

Current Issues

In the Spring of 1997 a fire destroyed the administration offices and large storage hangar at the Airport. The fire left the airport void of any operational buildings which could be utilized for airport business such as fuel sales, aircraft maintenance and aircraft storage and parking. The Airport was operated through the remainder of that year from a mobile office with only part-time help. The single remaining building on Airport property, which was scheduled to be razed, was leased to a commercial company that was scheduled to move out within ninety days. The Airport runway was in bad shape and in need of immediate repair and overlay. There was no parallel taxiway and the aircraft parking apron was virtually unusable. The two underground fuel tanks were required to be removed by Federal Law prior to December 31, 1998.

From the beginning, the Airport's Board of Trustees developed a long range operational plan that placed the Airport in the position of the landlord and then set about developing long-term agreements with tenants who would eventually supply the Airport with all the aeronautical services required for a fully serviced Airport. Presently, the Airport has a total of six fully functional Fixed Base Operators (FBOs). They include one full service FBO (Portage Flight Center), on a long-term land lease that provides for aircraft parts and supplies, fuel sales, pilot supplies and flight instruction. A new facility for refurbishing aircraft (painting) just opened for business on the north side. Another FBO that rents hangar space to private and business aircraft owners has a long-term land lease agreement with the Airport. The fifth FBO is located in hangar facilities but operates as an independent FBO that upholsters and refurbishes the interior of aircraft. The sixth commercial operator performs aircraft maintenance in a hangar located on the North side of the Airport. The newly repaired fuel farm is operating normally with fuel flowage fees directed to the Airport. There is a newly paved runway and a new full-length parallel taxiway. In addition, there are newly paved aircraft parking aprons and more recently a new taxiway extension that provided an FBO with a building site that accommodates 13 new "T" hangars. Already there are negotiations with an FBO to build additional "T" hangars under very favorable conditions should the Airport Authority find the necessary funding.

Over the last several years, grant funds were used to purchase properties and then clear those same properties of all obstructions. All the available properties on the south side of the Airport are now owned by the Airport Authority and have just recently been designated by the Board of Trustees to be developed into commercial plots for long-term land leases for both commercial enterprises in addition to aeronautical service providers (FBOs). Several interested parties have requested information on the new building sites and the plans shown on the Airport Web Site in addition to being advertised in various aeronautical publications. The revenues from the long-term land lease will go directly to offset the operating expenses of the Airport.

The continued need for user fees is of great concern to the Airport Authority. Only a portion of the required fees have been collected. The Airport Authority fully anticipates the collection of the remaining fees. The Airport will require the strong support of the County in terms of grant matching funds that enables the Airport to apply for and receive Federal and State grant funds. Equally important and directly affecting the Airport's operating funds is the County's subsidy for the Airport each year. It is anticipated that a minimum yearly subsidy of $25,000 will be required to operate the Airport effectively and efficiently.

Contacting the Portage County Airport Authority's Financial Management

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Airport's finances and to show the Airport's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Grant Consultant Gene Ripple, at the Portage County Regional Airport Authority, 4039 Nanway Boulevard, Ravenna, Ohio 44266-9705.

Portage County Regional Airport Authority

Statement of Net Assets

December 31, 2004

Assets	
Current Assets	
Cash	$276,595
Accounts Receivable	80,898
Total Current Assets	357,493
Noncurrent Assets	
Nondepreciable Capital Assets	1,790,996
Depreciable Capital Assets, Net	1,891,125
Total Noncurrent Assets	3,682,121
Total Assets	4,039,614
Liabilities	
Current Liabilities	
Accounts Payable	9,221
Contracts Payable	66,244
Accrued Wages	341
Intergovernmental Payable	366
Total Current Liabilities	76,172
Noncurrent Liabilities	
Due to Primary Government	419,000
Total Liabilities	495,172
Net Assets	
Invested in capital assets	3,682,121
Unrestricted (Deficit)	(137,679)
Total Net Assets	$3,544,442

See accompanying notes to the basic financial statements

Portage County Regional Airport Authority

Statement of Revenues,
Expenses and Changes in Net Assets
For the Year Ended December 31, 2004

Operating Revenues	
Charges for Services	$85,910
Miscellaneous	7,030
Total Operating Revenues	92,940
Operating Expenses	
Personal Services	11,133
Contractual Services	451,066
Materials and Supplies	5,663
Depreciation	172,449
Total Operating Expenses	640,311
Operating Loss	(547,371)
Non-Operating Revenues (Expenses)	
Interest and Fiscal Charges	(1,350)
Gain on Sale of Capital Assets	3,145
Interest	1,058
Operating Grants	343,529
Total Non-Operating Revenues (Expenses)	346,382
Change in Net Assets	(200,989)
Net Assets Beginning of Year	3,745,431
Net Assets End of Year	$3,544,442

See accompanying notes to the basic financial statements

Portage County Regional Airport Authority

Statement of Cash Flows

For the Year Ended December 31, 2004

Increase (Decrease) in Cash and Cash Equivalents	
Cash Flows from Operating Activities	
Cash Received from Customers	$77,996
Cash Received from Other Operating Sources	7,030
Cash Payments to Employees for Services and Benefits	(10,868)
Cash Payments for Contractual Services	(378,125)
Cash Payments to Suppliers for Materials and Supplies	(5,034)
Net Cash Used for Operating Activities	(309,001)
Cash Flows from Noncapital Financing Activities	
Operating Grants Received	344,610
Cash Flows from Capital and Related Financing Activities	
Principal Payment - Loan	(6,000)
Interest and Fiscal Charges	(1,615)
Proceeds from Sale of Capital Assets	14,000
Purchase of Capital Assets	(650)
Net Cash Provided by Capital and Related Financing Activities	5,735
Cash Flows from Investing Activities	
Interest on Investments	1,058
Net Increase in Cash and Cash Equivalents	42,402
Cash and Cash Equivalents Beginning of Year	234,193
Cash and Cash Equivalents End of Year	$276,595
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating Loss	($547,371)
Adjustments	
Depreciation	172,449
Increase in Accounts Receivable	(7,914)
Increase in Liabilities:	
Accounts Payable	8,643
Contracts Payable	64,927
Accrued Wages	152
Intergovernmental Payable	113
Total Adjustments	238,370
Net Cash Used for Operating Activities	($309,001)

See accompanying notes to the basic financial statements

Note 1 - Reporting Entity

The Portage County Regional Airport Authority (the "Airport") was created by resolution of the Portage County Commissioners under the authority of Chapter 308 of the Ohio Revised Code. The Airport is presently governed by a seven member board of trustees appointed by the County Commissioners. The Board of Trustees has the authority to exercise all of the powers and privileges provided under the law. These powers include the ability to sue or be sued in its corporate name, the power to establish and collect rates, rentals and other charges, the authority to acquire, construct, operate, manage and maintain airport facilities, the authority to buy and sell real and personal property, and the authority to issue debt for acquiring or constructing any facility or permanent improvement. Portage County has loaned the Airport money to continue operations. Since the Airport imposes a financial burden on the County, the Airport is reported as a discretely presented component unit of Portage County.

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

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

Note 2 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

The Airport's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows.

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

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

B. Measurement Focus

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

C. Basis of Accounting

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

On the accrual basis, revenue is recorded on exchange transactions when the exchange takes place. Nonexchange transactions, in which the Airport receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Expenses are recognized at the time they are incurred.

D. Investments

Investments are reported at fair value which is based on quoted market prices, except for nonparticipating investment contracts and money market investments that had a remaining maturity of one year or less at the time of purchase, which are reported at cost. For investments in open-end mutual funds, fair value is determined by the fund's current share price.

E. Capital Assets

Capital assets utilized by the Airport are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Airport maintains a capitalization threshold of one hundred dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets except for land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

Description	Estimated Lives
Land Improvements	15 years
Equipment, Furniture and Fixtures	5 - 10 years

The Airport's policy is to capitalize net interest on the enterprise fund construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project and the interest earned from temporary investments of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2004, no material interest costs were incurred on construction projects for the Airport.

F. 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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Airport or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Airport applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The Airport did not have any restricted net assets for 2004.

G. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Airport, these revenues are charges for services and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Airport. Revenues and expenses which do not meet these definitions are reported as nonoperating.

H. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 3 – Changes in Accounting Principle

For 2004, the Airport has implemented GASB Statement No. 39, “Determining Whether Certain Organizations are Component Units”, GASB Statement No. 46, “Net Assets Restricted by Enabling Legislation” and GASB Technical Bulletin No. 2004-2, “Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers.”

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how legal enforceability should be applied for restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the Airport.

Note 4 – Deposits and Investments

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the Airport Treasury or in money market deposit accounts.

Protection of the Airport's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Monies held by the Airport which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal and interest by the United States;

2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;

3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

4. Bonds and other obligations of the State of Ohio or its political subdivisions, provided that such political subdivisions are located wholly or partly within the Airport;

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;

6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;

7. The State Treasurer's investment pool (STAR Ohio);

8. Securities lending agreements in which the Airport lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;

9. High grade commercial paper in an amount not to exceed five percent of the Airport’s total average portfolio;

10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the Airport's total average portfolio.

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

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

The investment and deposit of the Airport's monies are governed by the Investment and Deposit Policy of the Portage County Regional Airport Authority as formally adopted by the Board of Trustees. In accordance with these provisions, investments purchased for the portfolio may be safekept only by financial institutions that have been authorized by the Airport's Board of Trustees through formal resolution and recommendations received from the Finance Committee, which considers such criteria as the financial institution's insured status, size, financial condition, location and fee structure.

Public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in addition to amounts insured by the Federal Deposit Insurance Corporation (FDIC), or may pledge a pool of government securities, the market value of which is at least 105 percent of the total value of public monies on deposit at the institution.

Deposits. At year-end, the carrying amount of the Airport's deposits was $276,595 and the bank balance was $297,697. Of the bank balance, $100,000 was covered by federal depository insurance, and $197,697 was covered by Ohio Public Entities Pooled Collateral.

GASB Statement No. 3, "Deposits with Financial Institutions, Investments, and Reverse Repurchase Agreements", requires that local governments disclose the market value and carrying amounts of investments, classified by risk. The Airport's investments are categorized as either (1) insured or registered for which the securities are held by the Airport or its agent in the Airport's name, (2) uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the Airport's name or (3) uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the Airport's name. For the purpose of classification under GASB Statement No. 3, the Airport did not have any investments at year end.

Note 5 - Accounts Receivable

Accounts receivable represent monies due from various companies for their use of Airport facilities and services. No allowance for doubtful accounts has been recorded as all amounts are considered collectible.

Note 6 – Risk Management

During 2004 the Authority contracted with several companies for various types of insurance as follows:

Company	Type	Coverage
General Star Indemnity	Professional Liability Insurance	$1,000,000
XL Specialty Insurance Company	Bodily Injury and Property Damage	2,000,000
USF&G/St. Paul	Commercial Property Insurance	591,350
Aviation Insurance Managers, Inc.	Inland Marine 100% Coinsured	47,100
Aviation Insurance Managers, Inc	Public Officials Bond	18,000

Settled claims have not exceeded this coverage in any of the past three years and there has been no significant reduction in commercial coverage in any of the past three years.

The Airport pays the State Workers' Compensation System a premium based on a rate per $100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 7 – Capital Assets

Capital asset activity for the fiscal year ended December 31, 2004 was as follows:

	Balance 1/1/2004	Additions	Deletions	Balance 12/31/2004
Capital Assets, not being depreciated:				
Land	$1,790,996	$0	$0	$1,790,996
Capital Assets, being depreciated				
Land Improvements	2,284,034	0	0	2,284,034
Equipment	248,209	650	(27,138)	221,721
Total Capital Assets being depreciated	2,532,243	650	(27,138)	2,505,755
Less Accumulated Depreciation:				
Land Improvements	(309,179)	(152,269)	0	(461,448)
Equipment	(149,285)	(20,180)	16,283	(153,182)
Total Accumulated Depreciation	(458,464)	(172,449)	16,283	(614,630)
Total Capital Assets being depreciated, net	2,073,779	(171,799)	(10,855)	1,891,125
Capital Assets, net	$3,864,775	($171,799)	($10,855)	$3,682,121

Note 8 - Long-Term Obligations

The changes in the Airport's long-term obligations during the year consist of the following:

	Principal Outstanding 1/1/2004	Additions	Reductions	Principal Outstanding 12/31/2004	Amounts Due in One Year
1998 $24,000 5.38% Loans Payable	$6,000	$0	($6,000)	$0	$0
2001 $419,000 Due to Primary Government	419,000	0	0	419,000	0
Total Business-Type Activities Long-Term Liabilities	$425,000	$0	($6,000)	$419,000	$0

The Airport has an obligation to the primary government of $419,000 at December 31, 2004 for a loan to continue the operations of the Airport. Payment on this loan has been deferred until 2011. The principal payment has been determined at $41,900 payable annually on this loan for ten years. Interest payments have not been determined for this loan as of December 31, 2004 due to the extended deferment.

Note 9 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

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

OPERS' provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, the members of all three plans were required to contribute 8.5 percent of their annual covered salaries. The Airport's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The Airport's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were $858, $563 and $437 respectively; 92.76 percent has been contributed for 2004 and 100 percent for 2003 and 2002. The Airport employees made no contributions to the member-directed plan for 2004.

Note 10 - Postemployment Benefits

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12.* A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 local government employer contribution rate was 13.55 percent of covered payroll; 4.00 percent of covered payroll was the portion that was used to fund health care. For 2003, 5.00 percent of covered payroll was the portion that was used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

All investments are carried at market. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were $360. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were $10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability 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 OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

Note 11 – Pending Litigation

During 2002 the Airport filed a civil complaint lawsuit against Thickstun Bros Inc. for breach of contract and negligence in the installation of the fuel farm system on airport property. This case was filed on February 12, 2002. This case is still pending as of the date of these financial statements.

Thickstun Bros. Inc. has filed a counter claim against the Airport for an alleged unjust enrichment claim for the amount of $25,466 in principal and an additional $33,035 in interest.

On February 27, 2003, the Airport received a letter from its insurance provider that the above counterclaim was not covered under its policy. The Plaintiff is seeking compensatory damages.

This case is currently in the discovery phase. The outcome of the above will depend primarily upon whether it can be proven that the Defendant Thickstun Bros. failed to perform the conditions of the contract in the areas of material and workmanship. In the initial contract, there was a liquidated damages provision if the project was not completed by a certain date. Defendant Thickstun Inc. did not meet the completion deadline and that is the Airport's basis for not paying the balance of the contract amount.

Note 12 – Operating Leases

In prior years, the Airport, as a lessor, has entered into an agreement for operating leases for land with the Portage Flight Center, Fixed Base Operators Hangars LLC and Chinn Aviation. The Airport has also entered into an operating lease for one of its hangars with Jeff Cales Custom Aviation.

The leases with the Portage Flight Center and Fixed Base Operators Hangars LLC are both for fifty years, began in 1997 and will expire in 2047. The terms of both leases call for monthly principal only payments to the Airport for $333 and $427 respectively. The lease with Chinn Aviation is a forty year lease which began in 2000 and will expire in 2040, with Chinn Aviation making monthly principal only payments of $449. The leased land has a total value of $89,550 at December 31, 2004.

The lease agreement with Jeff Cales Custom Aviation is a two year lease which began in 2003, for the use of one of the Airport's hangars. Payments of $1,800 are made monthly to the Airport with $1,000 going toward the hangar rental and $800 going toward maintenance of the hangar.

Note 13 – Operating Losses

The Airport has suffered recurring losses from operations and projects. Those recurring losses will continue in the future without additional subsidies from the County. The Airport has a limited (fixed) revenue base which is insufficient to cover operating expenses.

The Airport has delayed making payment on the $419,000 loan from the Commissioners for six consecutive years. The Airport requested that the Commissioners forgive the loan, but the response was that the loan is still owed. The 1999 through 2004 loan payments have been extended until calendar year 2011 when the Airport must make its first payment on the loan totaling $419,000, plus interest. The loan schedule will be paid in annual installments of $41,900, plus interest to be determined during 2011.

The Airport believes that additional operating subsidies received this year helped operating conditions. The Airport also believes that if the Commissioners were to continue to provide the additional $10,000 to $15,000 in operating subsidies, they would be able to meet their obligations in a timelier manner. The Commissioners have continued to provide matching monies on Federal and State Grants.

At present, the Airport has filed two lawsuits against users of the airfield for fees associated with use of airport facilities. The outcome of the lawsuits will have an effect on the operating condition of the airport because the monies will be used to fund current operations if the Court allows the fee to be placed on users of the Airport. The outcome of the litigation is presently undeterminable. Providing the Airports' fee policy is sustained, the estimated amount being sought is $85,718 in total. The estimates are as follows: due from calendar 2002 is estimated to be $24,124; due from calendar 2003 is estimated to be $30,094; due from calendar 2004 is estimated to be $31,500.

Auditor of State
Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Portage County Regional Airport Authority
Portage County
4039 Nanway Boulevard
Ravenna, OH 44266

To the Board of Trustees:

We have audited the financial statements of the Portage County Regional Airport Authority (the Airport) as of and for the year ended December 31, 2004, and have issued our report thereon dated June 29, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Airport's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the Airport's management dated June 29, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Airport's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the Airport's management dated June 29, 2005, we reported other matters related to noncompliance we deemed immaterial.

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We intend this report solely for the information and use of the audit committee, management, Board of Trustees and federal awarding agencies. It is not intended for anyone other than these specified parties.

Betty Montgomery

Betty Montgomery
Auditor of State

June 29, 2005

Auditor of State
Betty Montgomery

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PORTAGE COUNTY REGIONAL AIRPORT AUTHORITY

PORTAGE 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 4, 2005