

# **Lancaster Port Authority Fairfield County, Ohio**

Basic Financial Statements

December 31, 2019

with Independent Auditors' Report



OHIO AUDITOR OF STATE  
KEITH FABER



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Board of Directors  
Lancaster Port Authority  
104 East Main Street  
Lancaster, Ohio 43130

We have reviewed the *Independent Auditors' Report* of the Lancaster Port Authority, Fairfield County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2019 through December 31, 2019. 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 Lancaster Port Authority is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Keith Faber".

Keith Faber  
Auditor of State  
Columbus, Ohio

September 24, 2020

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Lancaster Port Authority  
104 East Main Street  
Lancaster, Ohio 43130-3726

### Report on the Financial Statements

We have audited the accompanying financial statements of the Lancaster Port Authority (the Authority), a component unit of the City of Lancaster, Ohio, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2019, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 3 – 6) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2020 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
July 31, 2020

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2019***

***Unaudited***

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The discussion and analysis of the Lancaster Port Authority's (the "Port Authority") financial performance provides an overall review of the Port Authority's financial activities for the year ended December 31, 2019. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2019 are as follows:

- Assets increased from \$361,662,234 to \$445,950,247 due to prepaying for additional natural gas.
- Liabilities increased due to issuing revenue bonds to prepay for additional natural gas.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2019***

***Unaudited***

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**FINANCIAL ANALYSIS OF THE PORT AUTHORITY**

The following tables represent the Port Authority's condensed financial information for 2019 and 2018 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	<u>2019</u>	<u>2018</u>
Current Assets	\$18,412,213	\$13,329,262
Other Assets	424,721,106	345,404,173
Capital Assets, Net	<u>2,816,928</u>	<u>2,928,799</u>
Total Assets	<u>445,950,247</u>	<u>361,662,234</u>
Current Liabilities	9,158,685	501,308
Long-term Debt Outstanding	<u>340,971,730</u>	<u>266,291,298</u>
Total Liabilities	<u>350,130,415</u>	<u>266,792,606</u>
Deferred Inflows of Resources	<u>186,819,864</u>	<u>175,955,659</u>
Net Position:		
Investment in Capital Assets	2,816,928	2,928,799
Unrestricted	<u>(93,816,960)</u>	<u>(84,014,830)</u>
Total Net Position	<u><u>(\$91,000,032)</u></u>	<u><u>(\$81,086,031)</u></u>

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**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2019**

**Unaudited**

Changes in Net Position – The following table shows the changes in net position for 2019 compared to 2018:

	<u>2019</u>	<u>2018</u>
Revenues		
Gas Supply	\$4,951,667	\$6,235,389
Other Operating Revenue	19,437	7,068
Total revenues	<u>4,971,104</u>	<u>6,242,457</u>
Expenses		
Supplies and Materials - Cost of Gas Sold	2,047,178	0
Contractual Services	2,625,034	246,515
Depreciation	74,900	74,150
Total expenses	<u>4,747,112</u>	<u>320,665</u>
Operating Income	223,992	5,921,792
Nonoperating Revenues/(Expenses)		
Intergovernmental Grant	21,000	0
Investment Earnings	81,660	49,184
Interest and Fiscal Charges	(10,301,451)	(5,485,829)
Gain on Derivative Instruments	0	2,048,195
Other Nonoperating Revenue	26,068	2,063
Gain on Sale of Capital Asset	34,730	0
Capital Contributions	<u>0</u>	<u>10,000</u>
Total Change in Net Position	(9,914,001)	2,545,405
Beginning Net Position	<u>(81,086,031)</u>	<u>(83,631,436)</u>
Ending Net Position	<u>(\$91,000,032)</u>	<u>(\$81,086,031)</u>

Net Position decreased by \$9,914,001. This was the result of refunding the revenue bonds which resulted in an increase in interest expense.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2019, the Port Authority had \$2,816,928 net of accumulated depreciation invested in capital assets. The following table shows 2019 and 2018 balances:

	<u>2019</u>	<u>2018</u>	Increase (Decrease)
Land	\$103,007	\$141,996	(\$38,989)
Buildings and Improvements	2,462,292	2,462,292	0
Equipment	15,012	12,994	2,018
Infrastructure	614,326	614,326	0
Less: Accumulated Depreciation	<u>(377,709)</u>	<u>(302,809)</u>	<u>(74,900)</u>
Totals	<u>\$2,816,928</u>	<u>\$2,928,799</u>	<u>(\$111,871)</u>

The Port Authority sold a parcel of land in 2019.

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2019***

***Unaudited***

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***Debt***

The following table summarizes the Port Authority's debt outstanding as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Revenue Bonds Payable	<u>\$340,971,730</u>	<u>\$266,595,000</u>
Totals	<u>\$340,971,730</u>	<u>\$266,595,000</u>

Additional information on the Port Authority's long-term debt can be found in Note 5.

**ECONOMIC FACTORS**

Commerce like our personal lives is seeing the stress from the world pandemic. Decisions have been put on hold while we all wait for the answer of just how bad this is and how soon it will be treatable. The Lancaster Port Authority (LPA) plans and operations have not been affected by the pandemic and the LPA held a vision retreat late 2019 to develop and modify its' action plan. The result was to continue focus on job creation through land acquisitions, land development, industrial buildings, marketing, and to add workforce housing development by creating package development in our new federal designated opportunity zones. Ohio has not been proactive in encouraging investment in the opportunity zones and the LPA intends to be a leader to drive investment in these areas.

The Port Authority's 50,400 square foot "spec" industrial building is currently on a month to month lease and is expected to be available for market to sell or lease late 2020. The LPA is currently negotiating the sale of two lots on Carbon Court and to sell the trans-load facility. The LPA desires to dissolve its' investment in rail activity. The two-year lease of the 4,000 square foot industrial building located at 1337 Carbon Court will expire August 31<sup>st</sup> 2020 and the building will be back on the market for sale or lease at that time.

Prior to March 31, 2020, the LPA executive director served on a volunteer basis. Effective April 1, 2020 the LPA has made the executive director a paid part-time position to focus on the goals of the board and to better move their vision forward.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, investors and creditors with a general overview of the Port Authority's finances and to show the Port Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact R. Michael Pettit, Director of the Lancaster Port Authority.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Net Position  
December 31, 2019***

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**ASSETS**

Current assets:

Cash and Cash Equivalents	\$1,399,054
Accounts Receivable	366,136
Loans Receivable	350,000
Prepaid Gas Supply - Current	<u>16,297,023</u>
Total Current Assets	<u>18,412,213</u>

Noncurrent Assets:

Prepaid Gas Supply - Long Term	227,960,088
Land Held for Resale	140,400
Fair Value of Derivative Instruments	186,819,864

Restricted Assets:

Cash and cash equivalents	9,800,754
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Capital Assets

Capital Assets Not Being Depreciated	103,007
Capital Assets Being Depreciated, net	<u>2,713,921</u>
Total Capital Assets	<u>2,816,928</u>

Total Noncurrent Assets	<u>427,538,034</u>
Total Assets	<u>445,950,247</u>

**LIABILITIES**

Current Liabilities:

Accrued Interest	9,158,685
Bond Payable-current	<u>1,205,000</u>
Total Current Liabilities	<u>10,363,685</u>

Noncurrent Liabilities:

Bond Payable-long term	<u>339,766,730</u>
Total Liabilities	<u>350,130,415</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflow from Derivative Instruments	<u>186,819,864</u>
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**NET POSITION**

Investment in Capital Assets	2,816,928
Unrestricted	<u>(93,816,960)</u>
Total Net Position	<u>(\$91,000,032)</u>

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2019***

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<u>Operating Revenues:</u>	
Gas Supply	\$4,951,667
Other Operating Revenue	19,437
Total Operating Revenues	<u>4,971,104</u>
<u>Operating Expenses:</u>	
Materials and Supplies - cost of gas sold	2,047,178
Contractual services	2,625,034
Depreciation	74,900
Total Operating Expenses	<u>4,747,112</u>
Operating Income	223,992
<u>Nonoperating Revenues (Expenses):</u>	
Intergovernmental Grants	21,000
Investment Earnings	81,660
Interest and Fiscal Charges	(10,301,451)
Other Nonoperating Revenues	26,068
Gain on Sale of Capital Assets	34,730
Total Nonoperating Revenues (Expenses)	<u>(10,137,993)</u>
Change in Net Position	(9,914,001)
Net Position at Beginning of Year	<u>(81,086,031)</u>
Net Position at End of Year	<u><u>(\$91,000,032)</u></u>

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Cash Flows  
For the Year Ended December 31, 2019***

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<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$5,393,696
Cash Received from Swap Providers	13,543,667
Cash Payments for Goods and Services	(87,780,542)
Other Miscellaneous Cash Receipts	26,068
Net Cash Used by Operating Activities	<u>(68,817,111)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Principal Payment on Revenue Bond Payable	(8,865,000)
Proceeds from Refunding Bonds	343,282,014
Principal Payment on Called Bonds	(259,320,000)
Loan to Primary Government	(350,000)
Intergovernmental Grant	21,000
Interest Paid on Debt	(2,894,029)
Cash Received from Swap Providers Interest	833,373
Net Cash Provided by Noncapital Financing Activities	<u>72,707,358</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Capital Assets	(2,018)
Proceeds from Sale of Capital Assets	73,719
Net Cash Provided by Capital and Related Financing Activities	<u>71,701</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest Earnings	81,660
Net Cash Provided by Investing Activities	<u>81,660</u>
Net Increase in Cash and Cash Equivalents	4,043,608
Cash and Cash Equivalents at Beginning of Year	7,156,200
Cash and Cash Equivalents at End of Year	<u>\$11,199,808</u>
<u>Reconciliation of Operating Income to Net Cash Used by Operating Activities:</u>	
Operating Income	\$223,992
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Miscellaneous Nonoperating Revenue	26,068
Depreciation Expense	74,900
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	422,592
Increase in Prepaid Items	(69,564,663)
Total Adjustments	<u>(69,041,103)</u>
Net Cash Used by Operating Activities	<u>(\$68,817,111)</u>

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Lancaster Port Authority (the "Port Authority") was created on December 12, 2005 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 operates under the direction of a five-member Board of Directors appointed by the Mayor of the City of Lancaster (the "City"). The Directors must be qualified electors of, or have their businesses or places of employment in the City. The Port Authority is considered a blended component unit of the City for reporting purposes, in accordance with accounting principles general accepted in the United States of America. The Port Authority was created for the purpose of enhancing, fostering, providing or promoting transportation, economic development, housing, recreation, education, government operations, and culture and research in the City.

The financial statements are presented as of December 31, 2019 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

**A. Reporting Entity**

The accompanying basic financial statements comply with the provisions of accounting principles general accepted in the United States of America in that the financial statements include all organizations, activities, functions and component units for which the Port Authority (the primary government) is financially accountable. The Port Authority is financially accountable for an organization if it has (1) the ability to appoint a voting majority of another entity's governing body and to impose its will on that entity, (2) the potential for that entity to provide specific financial benefits to or impose specific financial burdens on others, and (3) the entity's fiscal dependency on others.

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

**B. Basis of Presentation**

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Measurement Focus**

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

**D. Basis of Accounting**

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

**E. Cash and Cash Equivalents**

Cash and cash equivalents include amounts in demand deposits and money market funds. The Port Authority considers all highly liquid investments with original maturities of three months or less at the time of purchase to be cash equivalents.

**F. Prepaid Gas Supply**

The Port Authority prepaid for deliveries of natural gas supplies with the proceeds from revenue bonds. Prepaid gas supplies are stated at the present value of the remaining fixed delivery amounts, as determined by the prepay contract.

**G. Derivative Instruments**

The Port Authority's derivative financial instruments are accounted for in accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. In connection with this Statement, the fair value of the Port Authority's derivative financial instruments is recorded on the Statement of Net Position, with an offsetting deferred outflow or inflow.

Derivative instruments are utilized by the Port Authority to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include commodity swap agreements which convert indexed natural gas revenues to fixed prices for servicing outstanding debt obligations and interest rate swap agreements which effectively convert the Port Authority's variable interest rate to a fixed rate. Interest expense in each operating period includes the netting adjustments of the interest rate swap agreements. The interest rate swap agreements were terminated with the refunding in May 2019.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Capital Assets and Depreciation**

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

Property, plant and equipment acquired is stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Donated capital assets are recorded at acquisition 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>
Buildings	40
Improvements	20
Infrastructure	75
Equipment	10

**I. Estimates**

The preparation of 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.

**J. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets 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.

**K. Operating Revenues and Expenses**

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Port Authority, these revenues are charges for services for sale of natural gas. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**L. Fair Value**

The Port Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**NOTE 2 – DEFICIT NET POSITION**

The accumulated deficit at December 31, 2019 of \$91,000,032 is the result of recording the prepaid gas supply at the present value of the future shipments and the related bonds payable at outstanding par value. At the end of the contract period, the net result will be zero.

**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of the Port Authority are combined to form a pool of cash and investments. The Port Authority has adopted an Investment Policy that follows Ohio Revised Code Chapter 135 and applies the prudent person standard. The prudent person standard requires the Auditor and Treasurer to exercise the care, skill and experience that a prudent person would use to manage his/her personal financial affairs and to seek investments that will preserve principal while maximizing income. Statutes require the classification of funds held by the Port Authority into three categories.

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

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

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

- 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 or interest by the United States;

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

- 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;
- 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;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

**Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Port Authority cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Port Authority places deposits must pledged collateral for the amount of deposits not covered by the Federal Deposit Insurance Corporation (FDIC) by (1) maintaining eligible securities pledged to the Port Authority which are deposited with a qualified trustee by the public depository as security for the repayment whose market value at all times shall be 102 percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of the State of Ohio to secure the repayment of all public monies deposited in the public depository. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or at a lower rate if so established by the Treasurer of State.

At year end the carrying amount of the Port Authority's deposits was \$11,199,808 and the bank balance was \$11,199,808. Federal depository insurance covered \$500,000 of the bank balance, and \$10,699,808 was uninsured. Of the remaining uninsured bank balance, the Port Authority was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Port Authority's name	<u>\$10,699,808</u>

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

**NOTE 4 - CAPITAL ASSETS**

Summary by category at December 31, 2019:

***Historical Cost:***

Class	December 31, 2018	Additions	Deletions	December 31, 2019
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$141,996	\$0	(\$38,989)	\$103,007
Subtotal	141,996	0	(38,989)	103,007
<b><i>Capital assets being depreciated:</i></b>				
Buildings	2,325,451	0	0	2,325,451
Improvements	136,841	0	0	136,841
Equipment	12,994	2,018	0	15,012
Infrastructure	614,326	0	0	614,326
Subtotal	3,089,612	2,018	0	3,091,630
Total Cost	<u>\$3,231,608</u>	<u>\$2,018</u>	<u>(\$38,989)</u>	<u>\$3,194,637</u>

***Accumulated Depreciation:***

Class	December 31, 2018	Additions	Deletions	December 31, 2019
Buildings	(\$168,393)	(\$58,467)	\$0	(\$226,860)
Improvements	(50,133)	(6,842)	0	(56,975)
Equipment	(650)	(1,400)	0	(2,050)
Infrastructure	(83,633)	(8,191)	0	(91,824)
Total Depreciation	<u>(\$302,809)</u>	<u>(\$74,900)</u>	<u>\$0</u>	<u>(\$377,709)</u>
<b><i>Net Value:</i></b>	<u>\$2,928,799</u>			<u>\$2,816,928</u>

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019**

**NOTE 5 - LONG-TERM DEBT**

Long-term debt obligations of the Port Authority at December 31, 2019 were as follows:

	Balance December 31, 2018	Additions	Deletions	Balance December 31, 2019	Amount Due Within One Year
<b>Long-Term Debt</b>					
Variable Rate					
Revenue Refunding Bonds 2014	\$266,595,000	\$0	(\$266,595,000)	\$0	\$0
Discount	(303,702)	0	303,702	0	0
5% Revenue Refunding Bonds 2019	0	300,065,000	(1,590,000)	298,475,000	1,205,000
Premium	0	43,217,014	(720,284)	42,496,730	0
<b>Total Long-Term Debt</b>	<u>\$266,291,298</u>	<u>\$343,282,014</u>	<u>(\$268,601,582)</u>	<u>\$340,971,730</u>	<u>\$1,205,000</u>

In May, 2019, the Port Authority issued \$300,065,000 of gas supply revenue refunding bonds in a current refunding to redeem \$259,320,000 of gas supply revenue refunding bonds issued in July, 2014 as well as provide for the prepayment of the extension of the original prepaid gas agreement through the year 2049. The 2019 gas supply revenue refunding bonds carry an interest rate of 5.00% and are scheduled to mature on August 1, 2049, with the bonds maturing after February 1, 2025 being subject to a mandatory tender as of that date. The 2019 revenue refunding bonds have a fixed interest rate, while the 2014 revenue refunding bonds had variable rate interest payments based on the monthly LIBOR rate. The cash flow savings and economic gain/loss could not be calculated due to the uncertainties of future cash flow requirements given the variable interest rate.

The City of Lancaster will purchase the scheduled monthly gas at a specified index less a discount from such index price for the entire term of May 2019 through June 2049. The revenue bonds are secured by a pledge of the gas supply revenues derived from the related prepay transaction.

Years	Mortgage Revenue Bonds		
	Principal	Interest	Total
2020	\$1,205,000	\$17,811,715	\$19,016,715
2021	1,225,000	14,848,875	16,073,875
2022	1,285,000	14,786,875	16,071,875
2023	1,355,000	14,721,750	16,076,750
2024	1,460,000	14,653,250	16,113,250
2025-2029	44,350,000	68,552,750	112,902,750
2030-2034	52,805,000	55,972,500	108,777,500
2035-2039	57,080,000	42,422,125	99,502,125
2040-2044	64,635,000	27,324,250	91,959,250
2045-2049	73,075,000	10,236,875	83,311,875
<b>Totals</b>	<u>\$298,475,000</u>	<u>\$281,330,965</u>	<u>\$579,805,965</u>

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 6 - GAS PURCHASE AND SALES AGREEMENTS**

The Port Authority has entered into long-term gas purchase and supply contracts for which prepayments have been made and an amount remaining of \$244,257,111 is reflected in both current and noncurrent asset categories at December 31, 2019. Long-term sales agreements also exist with the City to take delivery of the natural gas over a period continuing through 2049. The sales price to the City for these contracts is at specified index prices less a discount. Swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

**NOTE 7 - DERIVATIVE INSTRUMENTS**

**Composition of Derivative Instruments**

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2019, classified by type, are as follows:

	<u>Notional Amount</u>	<u>Fair Value</u>	<u>Counterparty Credit Rating</u>
Positive Cash Flow Hedge:			
Pay-variable, receive fixed commodity swap	61,228,196 mmbtu	\$ 186,819,864	A-

All fair values are classified as derivative instruments on the Statement of Net Position. The increase in fair values of these derivatives instruments was \$10,864,205 for 2019. As these commodity swaps are considered hedging derivatives instruments, the change in fair value is reflected within deferred outflows and inflows on the Statement of Net Position. The fair values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established interest rate indexes. The fair value of the derivatives is calculated based on current market rates (Level 2 inputs).

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 7 - DERIVATIVE INSTRUMENTS (Continued)**

**Objective and Terms of Hedging Derivative Instruments**

The following table displays the objective and terms of the Port Authority hedging derivative instruments outstanding at December 31, 2019:

<u>Type</u>	<u>Objective</u>	<u>Maturity Date</u>	<u>Terms</u>
Pay-variable, receive fixed commodity swap	The Port Authority has entered into a fixed to floating commodity swap in connection with the natural gas prepay transaction. The purpose of the Commodity Swap is to correlate gas sales revenues the Port Authority receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	2049	The commodity swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. The commodity swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas sold pursuant to the related Natural Gas Supply Agreements. Payments under the commodity swap are based on nationally published gas indices at the gas delivery points.

**Commodity Swap Risks**

**Termination Risk:** The Commodity Swaps terminate in the event of a “triggering event” under the related Prepaid Natural Gas Sales Agreements, in the event of the Port Authority or counterparty nonperformance, and in connection with other specified events. Under the Commodity Swaps no payment, in the amount of the fair value or otherwise, is to be made by the Swap Counterparty in connection with an early termination of such swap. However, if the Commodity Swaps are terminated as a result of the Port Authority’s default or as a result of the termination of the Prepaid Natural Gas Sales Agreements, the Port Authority would be obligated to pay a termination payment to the Swap Counterparty based on the net present value of the remaining notional quantities of gas during the remaining term multiplied by a fixed amount.

**Credit Risk:** The Commodity Swaps are tied to related gas prepay transactions and terminate in the event such transactions terminate. Therefore, the only credit risk associated with the Commodity Swaps is for margins lost on future commodity deliveries associated with a termination of the related gas prepay transactions in the event of a counterparty’s inability to perform in accordance with the terms of the related Commodity Swaps. Generally, the only amounts due upon termination of the Commodity Swap would be previously accrued but unpaid amounts. If the Swap Counterparty is rated below "A1" by Moody’s Investors Service, Inc., the Swap Counterparty is permitted to post collateral or post an alternative security arrangement within twenty-five Local Business Days of such downgrade. The Swap Counterparty must provide the Port Authority adequate assurances of Swap Counterparty’s ability to continue performing under all Transactions, which adequate assurances must be satisfactory to the Port Authority.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2019***

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**NOTE 8 - 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, injuries to agents and others; and natural disasters. The Port Authority carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

All of the Port Authority's natural gas sales have been to the City of Lancaster (the "City"). At December 31, 2019, accounts receivable due from the City was \$366,136. For 2019, the Port Authority reported gas sales to the City in the amount of \$4,951,667. At December 31, 2019, the Port Authority had a 0%, short-term loan receivable due from the City of \$350,000.

**NOTE 10 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

Generally accepted accounting principles require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

**Major Suppliers**

The Port Authority purchased all of its natural gas supply from the Royal Bank of Canada. There are a limited number of national gas suppliers with which the Port Authority could contract under prepay gas transactions and any disruption of deliveries under the supply contracts could have an impact on the Port Authority's operations.

**Current Economic Conditions**

The Port Authority survived the past few years of economic decline with relatively minor implications of both industrial demand for natural gas and the overall economy and revenue. The City of Lancaster's growth of all economic sectors of residential, commercial, and industrial activities has resumed to pre-recession levels and is expected to grow its population at historic level of approximately one percent per year

The Port Authority continually monitors the demand for natural gas against the provisions of the pre-pay transaction to assess the long-term feasibility of continuing the program as it is currently structured. The Port Authority continues to make all financial decisions and commitments with available cash and will not borrow funds against this transaction. The Port Authority is exploring other types of projects as it moves forward to maintain its overall goal of improving the economic development within the City of Lancaster.

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

Board of Directors  
Lancaster Port Authority  
104 East Main Street  
Lancaster, Ohio 43130-3726

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lancaster Port Authority (the Authority), a component unit of the City of Lancaster, Ohio, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 31, 2020.

**Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2019-001, which we consider to be a significant deficiency.

**Compliance and Other Matters**

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

**Authority's Response to Finding**

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
July 31, 2020

## Section I – Summary of Auditors’ Results

### Financial Statements

Type of auditors’ report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	None noted
• Significant deficiency(ies) identified not considered to be material weakness(es)?	Yes
Noncompliance material to financial statements noted?	None noted

## Section II – Financial Statement Findings

### **2019-001: Significant Deficiency – Segregation of Duties**

The segregation of financial duties is important to adequately protect the Authority’s assets and ensure accurate financial reporting. Presently, there is not an adequate number of personnel available to properly segregate duties to provide reasonable assurance that no one employee would have access to both physical assets and related accounting records, or to all phases of a transaction. Without proper segregation of duties, the risk increases that errors and fraud could occur and not be detected within a timely basis. Efficient segregation of duties in a small environment is often difficult; however, the Authority’s Board should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible.

*Management Response: The Port Authority is aware of the segregation of duties issues related to limited and reduced staff and makes every attempt to mitigate these risks through separate reviews and oversight of transactions.*

**2018-001:** Significant Deficiency – The segregation of financial duties is important to adequately protect the Authority’s assets and ensure accurate financial reporting.

Status: *No Change - see current year finding 2019-001*



# OHIO AUDITOR OF STATE KEITH FABER



**LANCASTER PORT AUTHORITY**

**FAIRFIELD COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 10/8/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)