Lancaster Port Authority
Fairfield County, Ohio

Basic Financial Statements

December 31, 2017

with Independent Auditors' Report

CLARK SCHAEFER HACKETT
CPAs & Advisors

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

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, 2017 through December 31, 2017. 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.

Dave Yost

Dave Yost
Auditor of State

August 1, 2018

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CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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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, 2017, 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, 2017, 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 June 26, 2018, 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
June 26, 2018

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, 2017. 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 2017 are as follows:

- Assets decreased from $430,632,044 to $419,665,221 due to a decrease in the prepaid gas contract.
- There were no additions or disposals of capital assets.
- Liabilities decreased due to the decrease in the value of the derivative instruments and payment on the revenue bonds.

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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FINANCIAL ANALYSIS OF THE PORT AUTHORITY

The following tables represent the Port Authority's condensed financial information for 2017 and 2016 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	2017	2016
Current Assets	$13,724,581	$14,464,457
Other assets	402,950,685	413,104,132
Capital assets, Net	2,989,955	3,063,455
Total Assets	419,665,221	430,632,044
Deferred Outflows of Resources	993,899	5,110,370
Current Liabilities	398,295	293,987
Other Liabilities	993,899	5,110,370
Long-term debt outstanding	281,272,599	295,453,900
Total Liabilities	282,664,793	300,858,257
Deferred Inflows of Resources	221,625,763	219,790,903
Net Position:		
Net Investment in Capital Assets	2,289,955	2,013,455
Unrestricted	(85,921,931)	(86,920,201)
Total Net Position	($83,631,436)	($84,906,746)

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Management's Discussion and Analysis
For the Year Ended December 31, 2017 ***Unaudited***

Changes in Net Position – The following table shows the changes in net position for 2017 compared to 2016:

	2017	2016
Revenues		
Gas Supply	$6,526,321	$5,196,312
Other Operating Revenue	0	94,500
Total revenues	6,526,321	5,290,812
Expenses		
Contractual Services	328,795	242,969
Depreciation	73,500	45,628
Total expenses	402,295	288,597
Operating Income	6,124,026	5,002,215
Nonoperating Revenues/(Expenses)		
Intergovernmental Grant	30,000	0
Investment Earnings	14,594	1,048
Interest and Fiscal Charges	(5,766,150)	(5,976,751)
Gain on Derivative Instruments	870,021	1,636,521
Other Nonoperating Revenue	2,819	0
Total Change in Net Position	1,275,310	663,033
Beginning Net Position	(84,906,746)	(85,569,779)
Ending Net Position	($83,631,436)	($84,906,746)

Net Position increased by $1,275,310. This was the result of the price of natural gas being higher in 2017 compared to 2016, which increased the revenue received from the City.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the Port Authority had $2,989,955 net of accumulated depreciation invested in capital assets. The following table shows 2017 and 2016 balances:

	2017	2016	Increase (Decrease)
Land	$141,996	$141,996	$0
Buildings and Improvements	2,462,292	2,462,292	0
Infrastructure	614,326	614,326	0
Less: Accumulated Depreciation	(228,659)	(155,159)	(73,500)
Totals	$2,989,955	$3,063,455	($73,500)

There were no additions or disposals of capital assets in 2017.

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

Debt

The following table summarizes the Port Authority's debt outstanding as of December 31, 2017 and 2016:

	2017	2016
Revenue Bonds Payable	$281,180,000	$295,315,000
Loan Payable	700,000	1,050,000
Totals	$281,880,000	$296,365,000

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

ECONOMIC FACTORS

The Port Authority's 50,400 square foot spec building continues to be marketed for lease and/or sale. The building has driven up Lancaster's opportunities for site visits and lead responses. Prior to construction, Lancaster averaged thirty leads per year with an average of five site visits. In 2016 and 2017 and with the completion of the building in 2016, the leads jumped to an annual average of thirty-nine with site visits averaging fifteen per year. Already in 2018, Lancaster has responded to seven leads and two site visits.

The Ewing Business Park (formerly Ray-O-Vac brownfield site) also continues to be marketed with four lots available and one lot with the four-thousand square foot renovated building available for lease and/or sale.

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.

Statement of Net Position
December 31, 2017

ASSETS	
Current assets:	
Cash and Cash Equivalents	$967,332
Accounts Receivable	508,193
Prepaid Gas Supply - Current	12,249,056
Total Current Assets	13,724,581
Noncurrent Assets:	
Prepaid Gas Supply - Long Term	174,692,448
Land Held for Resale	140,400
Fair Value of Derivative Instruments	221,625,763
Restricted Assets:	
Cash and cash equivalents	6,492,074
Capital Assets	
Capital Assets Not Being Depreciated	141,996
Capital Assets Being Depreciated, net	2,847,959
Total Capital Assets	2,989,955
Total Noncurrent Assets	405,940,640
Total Assets	419,665,221
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflow from Derivative Instruments	993,899
LIABILITIES	
Current Liabilities:	
Accrued Interest	398,295
Loan Payable-current	350,000
Bond Payable-current	14,585,000
Total Current Liabilities	15,333,295
Noncurrent Liabilities:	
Loan Payable-long term	350,000
Bond Payable-long term	265,987,599
Fair Value of Derivative Instruments	993,899
Total Noncurrent Liabilities	267,331,498
Total Liabilities	282,664,793
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow from Derivative Instruments	221,625,763
NET POSITION	
Net Investment in Capital Assets	2,289,955
Unrestricted	(85,921,391)
Total Net Position	($83,631,436)

See accompanying notes to the basic financial statements

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2017

Operating Revenues:	
Gas Supply	$6,526,321
Total Operating Revenues	6,526,321
Operating Expenses:	
Contractual services	328,795
Depreciation	73,500
Total Operating Expenses	402,295
Operating Income	6,124,026
Nonoperating Revenues (Expenses):	
Intergovernmental Grants	30,000
Investment Earnings	14,594
Interest and Fiscal Charges	(5,766,150)
Other Nonoperating Revenues	2,819
Gain on Derivative Instrument	870,021
Total Nonoperating Revenues (Expenses)	(4,848,716)
Change in Net Position	1,275,310
Net Position at Beginning of Year	(84,906,746)
Net Position at End of Year	($83,631,436)

See accompanying notes to the basic financial statements

Statement of Cash Flows
For the Year Ended December 31, 2017

Cash Flows from Operating Activities:	
Cash Received from Customers	$6,555,890
Cash Received from Swap Providers	12,941,099
Cash Payments for Goods and Services	(328,795)
Other Miscellaneous Cash Receipts	2,819
Net Cash Provided by Operating Activities	19,171,013
Cash Flows from Noncapital Financing Activities:	
Principal Payment on Revenue Bond Payable	(14,135,000)
Intergovernmental Grant	30,000
Interest Paid on Debt	(5,329,705)
Net Cash Used by Noncapital Financing Activities	(19,434,705)
Cash Flows from Capital and Related Financing Activities:	
Principal Payment on Loan Payable	(350,000)
Interest Paid on Debt	(28,438)
Net Cash Used by Capital and Related Financing Activities	(378,438)
Cash Flows from Investing Activities:	
Cash Received from Swap Providers	870,021
Receipts of Interest Earnings	14,594
Net Cash Provided by Investing Activities	884,615
Net Increase in Cash and Cash Equivalents	242,485
Cash and Cash Equivalents at Beginning of Year	7,216,921
Cash and Cash Equivalents at End of Year	$7,459,406
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$6,124,026
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Miscellaneous Nonoperating Revenue	2,819
Depreciation Expense	73,500
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	29,569
Decrease in Prepaid Items	12,941,099
Total Adjustments	13,046,987
Net Cash Provided by Operating Activities	$19,171,013

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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, 2017 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.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 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 index-priced 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.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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 fair value at the date received.

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

Description	Estimated Lives (in years)
Buildings	40
Improvements	20
Infrastructure	75

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.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

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, 2017 of $83,631,436 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;

NOTE 3 - POOLED 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 pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the Port Authority's deposits was $7,459,406 and the bank balance was $7,461,303. Federal depository insurance covered $500,000 of the bank balance, and $6,961,303 was uninsured. Of the remaining uninsured bank balance, the Port Authority was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Port Authority's name	$6,961,303

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 4 - CAPITAL ASSETS

Summary by category at December 31, 2017:

Historical Cost:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Capital assets not being depreciated:				
Land	$141,996	$0	$0	$141,996
Subtotal	141,996	0	0	141,996
Capital assets being depreciated:				
Buildings	2,325,451	0	0	2,325,451
Improvements	136,841	0	0	136,841
Infrastructure	614,326	0	0	614,326
Subtotal	3,076,618	0	0	3,076,618
Total Cost	$3,218,614	$0	$0	$3,218,614

Accumulated Depreciation:

Class	December 31, 2016	Additions	Deletions	December 31, 2017
Buildings	($51,459)	($58,467)	$0	($109,926)
Improvements	(36,449)	(6,842)	0	(43,291)
Infrastructure	(67,251)	(8,191)	0	(75,442)
Total Depreciation	($155,159)	($73,500)	$0	($228,659)
Net Value:	$3,063,455			$2,989,955

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 5 - LONG-TERM DEBT

Long-term debt obligations of the Port Authority at December 31, 2017 were as follows:

			Balance December 31, 2016	Additions	Deletions	Balance December 31, 2017	Amount Due Within One Year
Long-Term Debt							
Variable Rate							
Revenue Refunding Bonds		2014	$295,315,000	$0	($14,135,000)	$281,180,000	$14,585,000
Discount			(911,100)	0	303,699	(607,401)	0
Loan Payable	3.250%	2016	1,050,000	0	(350,000)	700,000	350,000
Total Long-Term Debt			$295,453,900	$0	($14,181,301)	$281,272,599	$14,935,000

In July, 2014, the Port Authority issued $321,685,000 of gas supply revenue refunding bonds in a current refunding to redeem $325,985,000 of gas supply revenue bonds issued in March, 2008. The 2014 revenue refunding bonds have a variable rate interest payments based on the monthly LIBOR rate while the refunded 2008 revenue bonds calculated interest rate based on SIFMA index rates. The March, 2008 gas supply revenue bonds were issued to fund the prepayment of 64,655,785 Mmbtus of gas from Royal Bank of Canada with deliveries beginning April 2008 and ending March 2038. 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 April 2008 through March 2038. The revenue bonds are secured by a pledge of the gas supply revenues derived from the related prepay transaction. On August 1, 2019, the Series 2014 Bonds may either be refunded with a new series of bonds issued for a subsequent five-year period (or such shorter or longer period as may be agreed upon by the Port Authority and Royal Bank of Canada), or remarketed for a subsequent five-year period (or such shorter or longer period as may be agreed upon by the Port Authority and Royal Bank of Canada).

The Port Authority entered into an interest rate swap with Royal Bank of Canada in connection with the Series 2014, Gas Supply Revenue Refunding Bonds. Under the swap agreement, the Port Authority pays a fixed amount and receives a variable payment computed at a rate equal to that of the bonds. As of December 31, 2017, aggregated debt service requirements of the Port Authority's debt (variable rate) and net payments on a hedging derivative instrument are as follows. These amounts assume that current interest rates on the variable-rate bonds and the current reference rates of the hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and the net payments on the hedging derivative instrument will vary. See Note 7 for information on the derivative instrument.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2017

NOTE 5 - LONG-TERM DEBT (Continued)

	Mortgage Revenue Bonds				Loan Payable		
Years	Principal	Interest	Hedging Derivative Instruments, Net	Total	Principal	Interest	Total
2018	$14,585,000	$4,386,382	$628,073	$19,599,455	$350,000	$17,062	$367,062
2019	266,595,000	2,443,543	361,626	269,400,169	350,000	5,688	355,688
Totals	$281,180,000	$6,829,925	$989,699	$288,999,624	$700,000	$22,750	$722,750

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 $186,941,504 is reflected in both current and noncurrent asset categories at December 31, 2017. Long-term sales agreements also exist with the City to take delivery of the natural gas over a period continuing through 2038. 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

<u>Composition of Derivative Instruments</u>

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2017, classified by type, are as follows:

	Notional Amount	Fair Value	Counterparty Credit Rating
Positive Cash Flow Hedge:			
Pay-variable, receive fixed commodity swap	43,408,310 mmbtu	$ 221,625,763	A+/A-1
Negative Cash Flow Hedge:			
Pay-fixed, receive variable interest rate swap	$ 281,180,000	$ (993,899)	AA-/A-1+

All fair values are classified as derivative instruments on the Statement of Net Position. The increase in fair values of these derivatives instruments was $5,951,331 for 2017. As these commodity and interest rate 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 positive and negative fair values of the commodity and interest rate swaps were not netted. 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 values of the interest rate swaps are based on the LIBOR index at year end and discounted using established interest rate indexes. The fair value of the derivatives is calculated based on current market rates (Level 2 inputs).

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, 2017:

Type	Objective	Maturity Date	Terms
Pay-fixed receive variable interest rate swap	The Port Authority entered into an interest rate swap in connection with its Series 2014 Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related Commodity Swap with its variable rate debt service payment on these bonds.	2019	The interest rate swap extends to the date of the final maturity of these bonds and requires payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the interest rate swap, the Port Authority pays the counterparty a fixed payment of 1.84701%, on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2014 Bonds, which is based upon the LIBOR index.
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.	2038	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.

NOTE 7 - DERIVATIVE INSTRUMENTS (Continued)

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.

Interest Rate Swap Risks

Termination Risk: The Interest Rate 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 Interest Rate Swaps, no termination payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

Credit risk: The Interest Rate 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 Swap Counterparty nonperformance, and in connection with other specified events. The only amounts due upon termination of the Interest Rate Swaps 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.

NOTE 7 - DERIVATIVE INSTRUMENTS (Continued)

Interest Rate Risk: Under the pay-fixed interest rate swap agreement, the Port Authority is required to pay an amount equal to the notional amount times the rate actually borne by the Series 2014 Bonds, and is to receive an amount equal to the LIBOR index. In the event the rate actually borne by the Series 2014 Bonds exceeds the rate paid by the Swap Counterparty, the Port Authority would be required to pay the Swap Counterparty an amount equal to the notational amount times the difference.

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, 2017, accounts receivable due from the City was $508,193. For 2017, the Port Authority reported gas sales to the City in the amount of $6,526,321.

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.

NOTE 10 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS (Continued)

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.

CLARK SCHAEFER HACKETT
CPAs & ADVISORS

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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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 26, 2018.

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 2017-001, 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 of 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
June 26, 2018

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

2017-001: 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.

Section III – Summary Schedule of Prior Audit Findings

2016-001: 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 2017-001

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Dave Yost • Auditor of State

LANCASTER PORT AUTHORITY

FAIRFIELD 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, 14 2018

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