# HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
# LICKING COUNTY

## REGULAR AUDIT

## FOR THE YEARS ENDED DECEMBER 31, 2018-2017

**HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY**
**LICKING COUNTY**
**DECEMBER 31, 2018 AND 2017**

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# INDEPENDENT AUDITOR'S REPORT

Heath-Newark-Licking County Port Authority
Licking County
851 Irving-Wick Drive West
Heath, Ohio 43056

To the Board of Directors:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Heath-Newark-Licking County Port Authority, Licking County, Ohio (the Authority), as of and for the years ended December 31, 2018 and 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Heath-Newark-Licking County Port Authority, Licking County, Ohio, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with the accounting principles generally accepted in the United States of America.

### *Emphasis of Matter*

As discussed in Note 3 to the financial statements, during 2018, the Authority adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. We did not modify our opinion regarding this matter.

### *Other Matters*

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require this presentation to include *management's discussion and analysis*, and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2019, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on 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.

Keith Faber

Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019

The discussion and analysis of the Heath-Newark-Licking County Port Authority, Licking County (the Authority) financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2018. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

## Financial Highlights

Key financial highlights for 2018 are as follows:

- The Authority's net position was $36,527,680 as of December 31, 2018 according to the Statement of Net Position. This represents an increase of $4,334,514 from last year's restated net position of $32,193,166.

- Operating revenues for 2018 were $5,666,472, which represents an increase of $745,768, or 15.2% from 2017.

- Total outstanding debt during the year decreased $10,752 to $8,630,790 and is attributed to principal payments exceeding the amount of new debt issued for the year.

- The overall cash position of the Authority increased $1,009,207, which is attributed to the sale of assets, capital contributions and higher lease receipts.

## Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the Authority as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of revenues, expenses, and changes in net position provide information about the activities of the Authority as a whole, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances.

## Reporting the Authority as a Whole

### *Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position*

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer the question, "How did we do financially during 2018?" These statements present all assets and deferred outflows of resources and liabilities and deferred inflows of resources both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private – sector companies.

The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. These two statements report the Authority's net position and changes in overall financial position. This change in net position is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

## Reporting the Authority's Most Significant Fund

### *Proprietary Fund*

The Authority maintains one proprietary fund, an enterprise fund.

## Summary of Net Position

The table below provides a summary of the Authority's net position for 2018 and 2017:

| | 2018 | Restated 2017 |
|---|---|---|
| **Assets** | | |
| Current assets | $ 9,477,106 | $ 8,352,098 |
| Noncurrent assets | - | 43,014 |
| Capital assets, net | 37,551,108 | 33,607,752 |
| Total assets | 47,028,214 | 42,002,864 |
| **Deferred outflows of resources** | | |
| Total deferred outflows of resources | 173,139 | 365,779 |
| **Liabilities** | | |
| Current liabilities | 2,000,501 | 2,422,423 |
| Long-term liabilities: | | |
| Net pension liability | 597,401 | 866,322 |
| Net OPEB liability | 385,504 | 349,472 |
| Other amounts | 7,520,418 | 6,527,706 |
| Total liabilities | 10,503,824 | 10,165,923 |
| **Deferred inflows of resources** | | |
| Total deferred inflows of resources | 169,849 | 9,554 |
| **Net position** | | |
| Net investment in capital assets | 28,600,368 | 24,934,215 |
| Unrestricted | 7,927,312 | 7,258,951 |
| Total net position | $ 36,527,680 | $ 32,193,166 |

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2018, the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $36,527,680.

The net pension liability (NPL) is reported by the Authority at December 31, 2018 and is reported pursuant to GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27." For 2018, the Authority adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB). For reasons discussed below, many end users of this financial statement will gain a clearer understanding of the Authority's actual financial condition by adding deferred inflows related to pension and OPEB, the net pension liability and the net OPEB liability to the reported net position and subtracting deferred outflows related to pension and OPEB.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with accounting principles generally accepted in the United States of America. Prior accounting for pensions (GASB 27) and postemployment benefits (GASB 45) focused on a funding approach. This approach limited pension and OPEB costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's *net pension liability* or *net OBEP liability*. GASB 68 and GASB 75 take an earnings approach to pension and OPEB accounting; however, the nature of Ohio's statewide pension/OPEB plans and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

GASB 68 and GASB 75 require the net pension liability and the net OPEB liability to equal the Authority's proportionate share of each plan's collective:

1. Present value of estimated future pension/OPEB benefits attributable to active and inactive employees' past service.
2 Minus plan assets available to pay these benefits.

GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, the Authority is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the retirement system. In Ohio, there is no legal means to enforce the unfunded liability of the pension/OPEB plan *as against the public employer*. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The retirement system is responsible for the administration of the pension and OPEB plans.

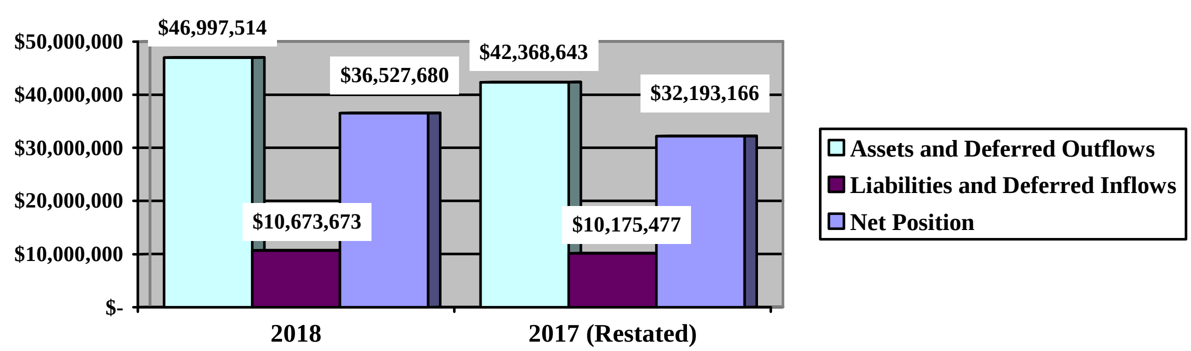
Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68 and GASB 75, the Authority's statements prepared on an accrual basis of accounting include an annual pension expense and an annual OPEB expense for their proportionate share of each plan's *change* in net pension liability and net OPEB liability, respectively, not accounted for as deferred inflows/outflows.

As a result of implementing GASB 75, the Authority is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting. This implementation also had the effect of restating net position at December 31, 2017, from $32,537,761 to $32,193,166.

Capital assets represent the largest portion of the Authority's net position. At year-end, capital assets represented 79.5% of total assets and deferred outflows of resources. Capital assets include land, construction in progress, land improvements, infrastructure, furniture and fixtures, machinery and equipment and vehicles. Net investment in capital assets or what was required to acquire these assets at December 31, 2018 was $28,600,368. These capital assets are used to provide services and are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net position of $7,927,312 may be used to meet the Authority's ongoing obligations.




**Summary of Revenues and Expenses**

The table below provides a summary of the Authority's revenues and expenses for 2018 and 2017:

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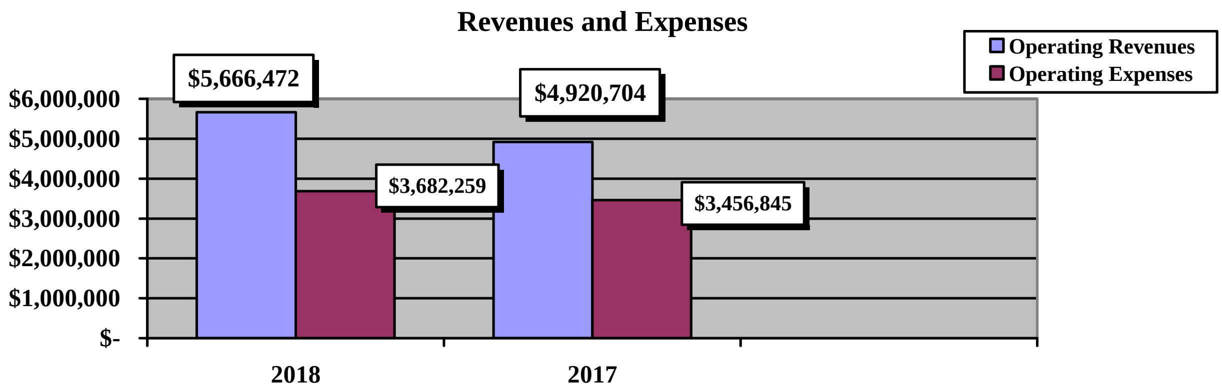
| | 2018 | Restated 2017 |
|---|---|---|
| **Operating Revenues:** | | |
| Charges for Services - Leases | $ 5,559,469 | $ 4,790,049 |
| Charges for Services - Other | 65,000 | - |
| Other Operating Revenues | 42,003 | 130,655 |
| Total Operating Revenues | 5,666,472 | 4,920,704 |
| **Operating Expenses:** | | |
| Personnel Services | 824,962 | 743,129 |
| Materials and Supplies | 33,751 | 32,861 |
| Contractual Services | 1,520,812 | 1,461,566 |
| Depreciation | 1,302,734 | 1,219,289 |
| Total Operating Expenses | 3,682,259 | 3,456,845 |
| Operating Income | 1,984,213 | 1,463,859 |
| **Nonoperating Revenues (Expenses):** | | |
| Investment Earnings | 127,493 | 77,002 |
| Gain on sale of capital assets | 512,981 | 60,739 |
| Intergovermental | 30,000 | 30,000 |
| Interest and Fiscal Services | (393,092) | (325,868) |
| Other Nonoperating Revenues (Expenses) | (23,663) | (172,313) |
| Total Nonoperating Revenues (Expenses) | 253,719 | (330,440) |
| Income (Loss) Before Contributions | 2,237,932 | 1,133,419 |
| Capital contributions | 2,096,582 | 119,800 |
| Changes in net position | 4,334,514 | 1,253,219 |
| Beginning Net Position | 32,193,166 | NA |
| Ending Net Position | $ 36,527,680 | $ 32,193,166 |

The information necessary to restate the 2017 beginning balance and the 2017 OPEB expense amounts for the effects of initial implementation of GASB 75 is not available. Operating revenues increased $745,768 and operating expenses increased $225,414 from 2017. The increase in operating revenues is attributed to the Authority increasing tenants on campus. Operating expenses increased based on implementation of GASB Statement No. 75 related to other post-employment benefits. Capital contributions increased based on tenants providing resources to expand and improve upon current and existing properties.

The graph below presents the activity regarding the change in net position for 2018 and 2017.




## Capital Assets and Debt Administration

### *Capital Assets*

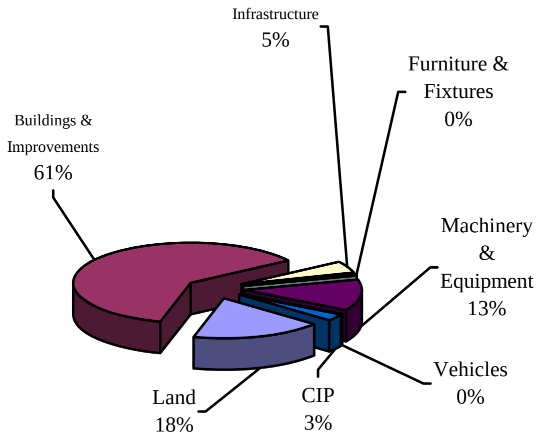
At the end of 2018, the Authority had $37,551,108 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows 2018 balances compared to 2017:

**Capital Assets at December 31**

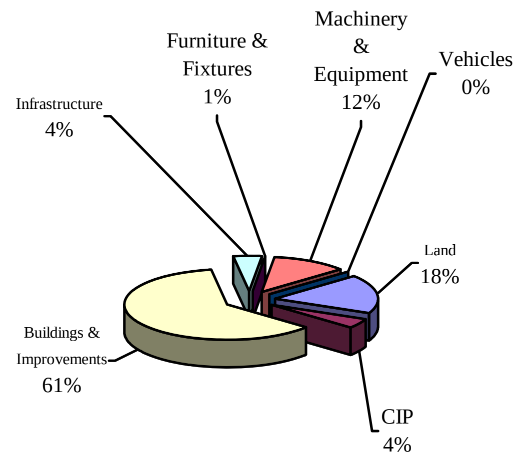
| | 2018 | 2017 |
|---|---|---|
| Land | $ 9,529,909 | $ 8,723,077 |
| Construction in Progress | 2,309,434 | 1,287,514 |
| Buildings and Improvements | 32,832,401 | 29,754,685 |
| Infrastructure | 2,347,118 | 2,333,202 |
| Furniture and Fixtures | 174,420 | 174,420 |
| Machinery and Equipment | 6,309,481 | 6,116,545 |
| Vehicles | 52,391 | 51,776 |
| Less: Accumulated Depreciation | (16,004,046) | (14,833,467) |
| Totals | $ 37,551,108 | $ 33,607,752 |

The following graph presents the categories of the Authority's capital assets reported at cost:

**Capital Assets - 2017**




**Capital Assets - 2018**




The Authority's largest capital asset category is buildings and improvements and represents 61% of total capital assets for 2018 and 2017.

See Note 5 to the basic financial statements for more detail on the Authority's capital assets.

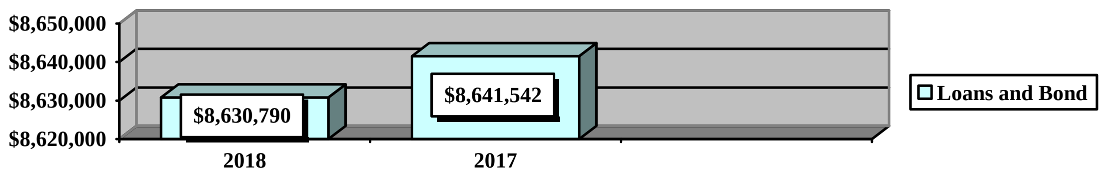
***Debt Administration***

The Authority had the following long-term obligations outstanding at December 31, 2018 and 2017:

| | 2018 | 2017 |
|---|---|---|
| Horton building interior loan | $401,681 | $492,821 |
| MISTRAS building loan | 3,784,783 | 3,955,744 |
| 20K speculative building | 571,193 | 606,577 |
| Recovery zone bond | 397,284 | 905,363 |
| 704 international drive | - | 1,010,817 |
| 670 Kaiser drive | 2,327,029 | - |
| Seminary ridge loan | 999,020 | 1,499,020 |
| Seminary ridge mortgage | 149,800 | 171,200 |
| Total | $8,630,790 | $8,641,542 |

A breakdown of the Authority's long-term obligations is as follows for 2018 and 2017:

**Long-Term Obligations at December 31**




See Note 8 to the basic financial statements for more detail on the Authority's long-term debt obligations.

## Economic Conditions and Outlook

Net position is expected to increase in future years as the Authority continues to increase expansion of the base further increasing the local workforce along with the Authority's commitment to bring high quality companies to the Licking County area.

## Contacting the Authority's Financial Management

This financial report is designed to provide a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information contact Erin Grigsby, Director, Finance and Compliance, Heath-Newark-Licking County Port Authority, 851 Irving-Wick Drive West, Heath, Ohio.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2018

| | |
|---|---|
| **Assets:** | |
| **Current assets:** | |
| Cash and cash equivalents | $ 9,150,179 |
| Receivables: | |
| Accounts | 18,317 |
| Loans | 200,000 |
| Prepaid items | 108,610 |
| Total current assets | 9,477,106 |
| **Noncurrent assets:** | |
| Capital assets: | |
| Land | 9,529,909 |
| Construction in progress | 2,309,434 |
| Depreciable capital assets, net | 25,711,765 |
| Total capital assets, net | 37,551,108 |
| Total noncurrent assets | 37,551,108 |
| Total assets | 47,028,214 |
| **Deferred Outflows of Resources:** | |
| Pension | 144,769 |
| OPEB | 28,370 |
| Total deferred outflows of resources | 173,139 |
| Total assets and deferred outflows of resources | 47,201,353 |

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

STATEMENT OF NET POSITION
DECEMBER 31, 2018

| | |
|---|---|
| **Liabilities:** | |
| **Current liabilities:** | |
| Accounts payable | 45,391 |
| Contracts payable | 319,950 |
| Accrued wages and benefits | 33,395 |
| Intergovernmental payable | 127,447 |
| Accrued interest payable | 28,168 |
| Unearned revenue | 194,509 |
| Compensated absences payable | 3,769 |
| Horton building interior loan | 95,876 |
| MISTRAS building construction loan | 176,861 |
| Seminary ridge loan | 499,755 |
| Seminary ridge mortgage | 21,400 |
| 20K speculative building | 27,073 |
| Recovery zone facility bond | 312,508 |
| 670 Kaiser drive loan | 114,399 |
| Total current liabilities | 2,000,501 |
| **Noncurrent liabilities:** | |
| Recovery zone facility bond | 84,776 |
| Horton building interior loan | 305,805 |
| MISTRAS building construction loan | 3,607,922 |
| 20K speculative building | 544,120 |
| Seminary ridge loan | 499,265 |
| Seminary ridge mortgage | 128,400 |
| 670 Kaiser drive loan | 2,212,630 |
| Customer Deposits | 137,500 |
| Net pension liability | 597,401 |
| Net OPEB liability | 385,504 |
| Total noncurrent liabilities | 8,503,323 |
| Total liabilities | 10,503,824 |
| **Deferred Inflows of Resources:** | |
| Pension | 141,135 |
| OPEB | 28,714 |
| Total deferred inflows of resources | 169,849 |
| Total liabilities and deferred inflows of resources | 10,673,673 |
| **Net Position:** | |
| Net investment in capital assets | 28,600,368 |
| Unrestricted | 7,927,312 |
| Total net position | $ 36,527,680 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

| | | |
|---|---|---|
| **Operating revenues:** | | |
| Charges for services - leases | $ | 5,559,469 |
| Charges for services - other | | 65,000 |
| Other operating revenues | | 42,003 |
| Total operating revenues | | 5,666,472 |
| **Operating expenses:** | | |
| Personnel services | | 824,962 |
| Material and supplies | | 33,751 |
| Contractual services | | 1,520,812 |
| Depreciation | | 1,302,734 |
| Total operating expenses | | 3,682,259 |
| Operating income | | 1,984,213 |
| **Nonoperating revenues (expenses):** | | |
| Investment earnings | | 127,493 |
| Intergovernmental grants | | 30,000 |
| Interest and fiscal charges | | (393,092) |
| Gain on sale of capital assets | | 512,981 |
| Other nonoperating revenues (expenses) | | (23,663) |
| Total nonoperating revenues (expenses) | | 253,719 |
| Income before capital contributions | | 2,237,932 |
| Capital contributions | | 2,096,582 |
| Change in net position | | 4,334,514 |
| **Net position at beginning of year (Restated)** | | 32,193,166 |
| **Net position at end of year** | $ | 36,527,680 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

## HEATH-NEWARK-LICKING COUNTY PORT AUTHORITY
## LICKING COUNTY

### STATEMENT OF CASH FLOWS - PROPRIETARY FUND
### FOR THE YEAR ENDED DECEMBER 31, 2018

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from leases | $ 5,900,994 |
| Cash received from other operating receipts | 226,354 |
| Cash payments to supplies for goods and services | (1,505,374) |
| Cash payments for employee services and benefits | (770,583) |
| Net cash provided by operating activities | 3,851,391 |
| **Cash flows from capital and related financing activities:** | |
| Intergovernmental receipts | 30,000 |
| Proceeds from loans | 2,400,000 |
| Proceeds from sale of capital assets | 2,219,930 |
| Capital contributions | 1,896,582 |
| Principal payments - Recovery zone facility bond | (508,079) |
| Principal payments - Horton building interior loan | (91,140) |
| Principal payments - MISTRAS loan | (170,961) |
| Principal payments - Seminary ridge mortgage | (21,400) |
| Principal payments - Seminary ridge loan | (500,000) |
| Principal payments - 20K speculative building | (35,384) |
| Principal payments - 704 international drive | (1,010,817) |
| Principal payments - 670 kaiser drive | (72,971) |
| Interest payments - Recovery zone facility bond | (40,883) |
| Interest payments - Horton building interior loan | (22,888) |
| Interest payments - 670 kaiser drive | (78,383) |
| Interest payments - MISTRAS loan | (186,924) |
| Interest payments - 20K speculative building | (30,526) |
| Interest payments - 704 international drive | (9,613) |
| Interest payments - Seminary ridge mortgage | (1,600) |
| Acquisition and construction of capital assets | (6,738,620) |
| Net cash used in capital and related financing activities | (2,973,677) |
| **Cash flows from investing activities:** | |
| Interest received | 131,493 |
| Net cash provided by investing activities | 131,493 |
| Net increase in cash and cash equivalents | 1,009,207 |
| **Cash and cash equivalents at beginning of year** | 8,140,972 |
| **Cash and cash equivalents at end of year** | $ 9,150,179 |

(Continued)

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2018

| | |
|---|---|
| **Reconciliation of operating income to net cash provided by operating activites:** | |
| Operating income | $ 1,984,213 |
| Adjustments: | |
| Depreciation | 1,302,734 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| (Increase) decrease in accounts receivable | (18,317) |
| (Increase) decrease in loan receivable | (200,000) |
| (Increase) decrease in note receivable | 100,000 |
| (Increase) decrease in deferred outflows of resources - pension | 216,133 |
| (Increase) decrease in deferred outflows of resources - OPEB | (23,493) |
| (Increase) decrease in prepaid items | (1,484) |
| Increase (decrease) in accounts payable | 12,279 |
| Increase (decrease) in contracts payable | 287,955 |
| Increase (decrease) in accrued wages and benefits | 4,078 |
| Increase (decrease) in compensated absences | 182 |
| Increase (decrease) in intergovernmental payable | (26,137) |
| Increase (decrease) in customer deposits | 137,500 |
| Increase (decrease) in net OPEB liability | 36,032 |
| Increase (decrease) in net pension liability | (268,921) |
| Increase (decrease) in deferred inflows of resources - pension | 131,581 |
| Increase (decrease) in deferred inflows of resources - OPEB | 28,714 |
| Increase (decrease) in unearned revenue | 148,342 |
| Net cash provided by operating activities | $ 3,851,391 |

**Noncash capital and related financing activities:**
The Authority received donated assets in the amount of $200,000.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" as amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's Governing Board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; or (3) the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Authority has no component units. The basic financial statements of the reporting entity include only those of the Authority (the primary government).

### B. Basis of Presentation

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

The financial statements are presented as of December 31, 2018 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America (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).

### C. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position.

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

### C. Measurement Focus (Continued)

The statement of change in fund 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 Authority finances and meets the cash flow needs of its proprietary activities.

### D. Basis of Accounting

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

### E. Budgetary Process

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

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

1. Budget

The Director, Finance and Compliance and Chief Executive Officer submit an annual budget and appropriations resolution for the following fiscal year to the Board of Directors by the December board meeting for consideration and passage. The adopted budget shall not exceed the total of the estimated revenues available for expenditure.

2. Estimated Resources

The Director, Finance and Compliance and Chief Executive Officer prepare estimated revenues by fund prior to consideration of the annual appropriation resolution. The Authority must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

3. Appropriations

An annual appropriation resolution must be passed by the Board of Directors for the following year in December. The appropriation resolution establishes spending controls at the fund and object level (i.e. personnel services, materials and supplies, contractual services, and capital outlay). The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources. The allocation of appropriations among objects within the fund may be modified during the year by a resolution of the Board of Directors.

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

### E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

5. Lapsing of Appropriations

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

### F. Cash and Cash Equivalents

Cash balances of the Authority's funds are pooled and invested in investments in order to provide improved cash management. Individual fund integrity is maintained through the Authority's records and is presented as "Cash and Cash Equivalents" on the financial statements.

During 2018, investments were limited to a sweep account, a certificate of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as the certificate of deposit and sweep account are reported at cost.

STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Authority measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2018, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

Interest revenue earned and credited during 2018 amounted to $127,493.

For purpose of the statement of cash flows and for presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### G. Fair Value

The 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. All investments of the Authority are reported at cost.

### H. Capital Assets and Depreciation

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

Property, plant and equipment acquired by the enterprise funds are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Donated capital assets are recorded at their acquisition 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) |
|---|---|
| Infrastructure | 20 – 50 |
| Buildings | 20 – 50 |
| Building Improvements | 10 – 50 |
| Improvements Other than Buildings | 10 – 20 |
| Vehicles | 3 – 15 |
| Furniture & Equipment | 3 – 25 |
| Computer Equipment | 3 – 15 |

### I. Compensated Absences

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

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### J. Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net positon have been determined on the same basis as they are reported by the pension/OPEB plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

### K. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources have been reported for the following two items related the Authority's net pension and net OPEB liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Authority's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the Authority reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Authority, deferred inflows of resources have been reported for the following two items related the Authority's net pension and net OPEB liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Authority's contributions to the pension systems subsequent to the measurement date.

### L. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets is reported net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net position would consist of monies and other resources, which are restricted to satisfy debt service requirements as specified in debt agreements.

### M. Operating Revenues & Expenses

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

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

### N. Economic Dependency

The Authority receives approximately 98.1% of its operating revenue from tenant leases. Due to the significance of this revenue, the Authority is considered economically dependent on lease revenues.

## NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of the Authority are combined to form a pool of cash and investments. The 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 Authority 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 Authority into three categories.

Category I consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the 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 obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

- 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).

## NOTE 2 – POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

### Deposits

Custodial credit risk is the risk that, in the event of bank failure, the Authority will not be able to recover deposits or collateral securities that are in the possession of an outside party. The Authority has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits either be insured or protected by (1) eligible securities pledged to the Authority's and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105 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 State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the Authority's financial institution was approved for a collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Authority to a successful claim by the FDIC.

At year end the carrying amount of the Authority's deposits was $1,580,107 and based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of December 31, 2018, $1,140,661 of the Authority's bank balance of $1,583,830 was exposed to custodial risk as discussed below, while $443,169 was covered by the FDIC.

### Investments

The Authority invested in STAR Ohio that was reported at amortized cost of $5,138,181 and an overnight sweep account, which has no credit rating, in the amount of $2,431,891.

***Interest Rate Risk*** – As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Authority's investment policy limits investment portfolio maturities to five years or less.

***Concentration of Credit Risk*** – STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Authority's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

***Custodial Credit Risk*** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

## NOTE 3 – ACCOUNTABILITY

For 2018, the Authority has implemented GASB Statement No. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*", GASB Statement No. 81 "*Irrevocable Split-Interest Agreements*" GASB Statement No. 85, "*Omnibus 2017*" and GASB Statement No. 86, "*Certain Debt Extinguishments*".

GASB Statement No. 75 improves the accounting and financial reporting by state and local governments for postemployment benefits other than pension (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The implementation of GASB Statement No. 75 affected the Authority's postemployment benefit plan disclosures, as presented in Note 7 to the basic financial statements, and added required supplementary information.

GASB Statement No. 81 improves the accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The implementation of GASB Statement No. 81 did not have an effect on the basic financial statements of the Authority.

GASB Statement No. 85 addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and OPEB. The implementation of GASB Statement No. 85 did not have an effect on the basic financial statements of the Authority.

GASB Statement No. 86 improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The implementation of GASB Statement No. 86 did not have an effect on the basic financial statements of the Authority.

A net position restatement is required in order to implement GASB Statement No 75. Net position at December 31, 2017 has been restated as follows:

| | |
|---|---|
| Net position as previously reported | $ 32,537,761 |
| Deferred outflows - payments subsequent to measurement date | 4,877 |
| Net OPEB liability | (349,472) |
| Restated net position at December 31, 2017 | $ 32,193,166 |

Other than employer contributions subsequent to the measurement date, the Authority made no restatement for deferred inflows of resources as the information needed to generate these restatements was not available.

## NOTE 4 – LOAN RECEIVABLE

The Authority entered into an intergovernmental agreement with the Licking County Transportation Improvement District to provide matching grant funds specific to the Thornwood Drive project. The principal sum of the loan is $200,000 at a rate of 0%. This note is expected to be repaid during 2019.

## NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2018:

| | Balance 12/31/2017 | Additions | Deletions | Balance 12/31/2018 |
|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | |
| Land | $8,723,077 | $1,003,858 | ($197,026) | $9,529,909 |
| Construction in Progress | 1,287,514 | 2,230,872 | (1,208,952) | 2,309,434 |
| Total Nondepreciable Capital Assets | 10,010,591 | 3,234,730 | (1,405,978) | 11,839,343 |
| **Depreciable Capital Assets** | | | | |
| Buildings and Improvements | 29,754,685 | 4,599,270 | (1,521,554) | 32,832,401 |
| Infrastructure | 2,333,202 | 13,916 | - | 2,347,118 |
| Furniture and Fixtures | 174,420 | - | - | 174,420 |
| Machinery and Equipment | 6,116,545 | 208,138 | (15,202) | 6,309,481 |
| Vehicles | 51,776 | 29,130 | (28,515) | 52,391 |
| Total at Historical Cost | 38,430,628 | 4,850,454 | (1,565,271) | 41,715,811 |
| Less: Accumulated Depreciation | | | | |
| Buildings and Improvements | (10,228,241) | (848,915) | 9,899 | (11,067,257) |
| Infrastructure | (824,903) | (49,617) | 0 | (874,520) |
| Furniture and Fixtures | (131,230) | (5,921) | 78,704 | (58,447) |
| Machinery and Equipment | (3,618,027) | (393,042) | 26,443 | (3,984,626) |
| Vehicles | (31,066) | (5,239) | 17,109 | (19,196) |
| Total Accumulated Depreciation | (14,833,467) | (1,302,734) | 132,155 | (16,004,046) |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 23,597,161 | 3,547,720 | (1,433,116) | 25,711,765 |
| Capital Assets, Net | $33,607,752 | $6,782,450 | ($2,839,094) | $37,551,108 |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS

### *Net Pension Liability*

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

The net pension liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on the accrual basis of accounting.

### *Plan Description – Ohio Public Employees Retirement System (OPERS)*

Plan Description - Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan.

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| **Group A**<br>Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B**<br>20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C**<br>Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

| | State and Local |
|---|---|
| **2018 Statutory Maximum Contribution Rates** | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| **2018 Actual Contribution Rates** | |
| Employer: | |
| Pension | 14.0 % |
| Post-employment Health Care Benefits | 0.0 |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was $72,764 for 2018. Of this amount, $5,671 is reported as a component of accrued wages and benefits.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

| | OPERS |
|---|---|
| **Traditional Plan** | |
| Proportion of the net pension liability prior measurement date | 0.00381500% |
| Proportion of the net pension liability current measurement date | 0.00380800% |
| Change in proportionate share | -0.00000700% |
| | |
| Proportionate share of the net pension liability - Traditional Plan | $ 597,401 |
| Pension expense | $ 151,561 |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $611 |
| Changes of assumptions | 71,394 |
| Authority contributions subsequent to the measurement date | 72,764 |
| Total Deferred Outflows of Resources | $144,769 |
| | |
| **Deferred Inflows of Resources** | |
| Differences between expected and actual experience | $11,772 |
| Net difference between projected and actual earnings on pension plan investments | 128,253 |
| Changes in proportion and differences between Authority contributions and proportionate share of contributions | 1,110 |
| Total Deferred Inflows of Resources | $141,135 |

$72,764 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS |
|---|---|
| Year Ending December 31: | |
| 2019 | ($35,878) |
| 2020 | (39,253) |
| 2021 | (9,827) |
| 2022 | 15,828 |
| Total | ($69,130) |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

### *Actuarial Assumptions - OPERS*

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation.

In 2016, the Authority's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience results, are presented as follows:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent simple through 2018, then 2.15% simple |
| Investment Rate of Return | 7.5 percent |
| Actuarial Cost Method | Individual Entry Age |

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the described tables.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return.

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

| Asset Class | Target Allocation 2017 | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 23.00 % | 2.20 % |
| Domestic Equities | 19.00 | 6.37 |
| Real Estate | 10.00 | 5.26 |
| Private Equity | 10.00 | 8.97 |
| International Equities | 20.00 | 7.88 |
| Other investments | 18.00 | 5.26 |
| Total | 100.00 % | 5.66 % |

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 16.82% for 2017.

***Discount Rate*** The discount rate used to measure the total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the net pension liability calculated using the discount rate of 7.5%, and the expected net pension liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Authority's proportionate share of the net pension liability: | | | |
| Traditional Plan | $ 1,060,833 | $ 597,401 | $ 211,039 |

## NOTE 7 – DEFINED BENEFIT OPEB PLANS

***Net OPEB Liability***

For 2018, Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions” was effective. This GASB pronouncement had no effect on beginning net position as reported January 1, 2018, as the net OPEB liability is not reported in the accompanying financial statements. The net OPEB liability has been disclosed below.

OPEB is a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period.

The net OPEB liability represents the Authority’s proportionate share of each OPEB plan’s collective actuarial present value of projected benefit payments attributable to past periods of service, net of each OPEB plan’s fiduciary net position. The net OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the Authority’s obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which OPEB are financed; however, the Authority does receive the benefit of employees’ services in exchange for compensation including OPEB.

GASB 75 assumes the liability is solely the obligation of the employer, because they benefit from employee services. OPEB contributions come from these employers and health care plan enrollees which pay a portion of the health care costs in the form of a monthly premium. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. Any change to benefits or funding could significantly affect the net OPEB liability. Resulting adjustments to the net OPEB liability would be effective when the changes are legally enforceable. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

## NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)

### *Plan Description – Ohio Public Employees Retirement System (OPERS)*

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care is not being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0 percent for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

## NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was $0 for 2018.

### *Net OPEB Liability*

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

| | OPERS |
|---|---|
| Proportion of the Net OPEB Liability: | |
| Current Measurement Date | 0.003550% |
| Prior Measurement Date | 0.003460% |
| Change in Proportionate Share | 0.0000900% |
| Proportionate Share of the Net OPEB Liability | $385,504 |
| OPEB Expense | $41,257 |

At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to other post-employment benefit liabilities from the following sources:

| | OPERS |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $300 |
| Changes of assumptions | 28,070 |
| Total Deferred Outflows of Resources | $28,370 |
| **Deferred Inflows of Resources** | |
| Net difference between projected and actual earnings on OPEB plan investments | $28,714 |
| Total Deferred Inflows of Resources | $28,714 |

**NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)**

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| | OPERS |
|---|---|
| Year Ending December 31: | |
| 2019 | $6,384 |
| 2020 | 6,384 |
| 2021 | (5,937) |
| 2022 | (7,175) |
| Total | ($344) |

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Projected Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| Single Discount Rate: | |
| Current measurement date | 3.85 percent |
| Prior Measurement date | 4.23 percent |
| Investment Rate of Return | 6.50 percent |
| Municipal Bond Rate | 3.31 percent |
| Health Care Cost Trend Rate | 7.5 percent, initial<br>3.25 percent, ultimate in 2028 |
| Actuarial Cost Method | Individual Entry Age |

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006.

**NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)**

The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio is 15.2 percent for 2017.

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

| Asset Class | Target Allocation | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 34.00 % | 1.88 % |
| Domestic Equities | 21.00 | 6.37 |
| Real Estate Investment Trust | 6.00 | 5.91 |
| International Equities | 22.00 | 7.88 |
| Other investments | 17.00 | 5.39 |
| Total | 100.00 % | 4.98 % |

## NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)

***Discount Rate*** A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

***Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*** The following table presents the Authority's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

| | 1% Decrease (2.85%) | Current Discount Rate (3.85%) | 1% Increase (4.85%) |
|---|---|---|---|
| Authority's proportionate share of the net OPEB liability | $512,159 | $385,504 | $283,042 |

***Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2018 is 7.50 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

## NOTE 7 – DEFINED BENEFIT OPEB PLANS (Continued)

| | 1% Decrease | Current Health Care Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| Authority's proportionate share of the net OPEB liability | $368,845 | $385,504 | $402,712 |

## NOTE 8 – LONG-TERM DEBT

Long-term debt obligations of the Authority at December 31, 2018 were as follows:

| | (Restated) Balance Outstanding 12/31/17 | Additions | Reductions | Balance Outstanding 12/31/18 | Amounts Due in One Year |
|---|---|---|---|---|---|
| Recovery zone bond | $ 905,363 | $ - | $ (508,079) | $ 397,284 | $ 312,508 |
| Horton building interior loan | 492,821 | - | (91,140) | 401,681 | 95,876 |
| MISTRAS building loan | 3,955,744 | - | (170,961) | 3,784,783 | 176,861 |
| 20K speculative building | 606,577 | - | (35,384) | 571,193 | 27,073 |
| 704 international drive | 1,010,817 | - | (1,010,817) | - | - |
| Seminary ridge loan | 1,499,020 | - | (500,000) | 999,020 | 499,755 |
| Seminary ridge mortgage | 171,200 | - | (21,400) | 149,800 | 21,400 |
| 670 Kaiser drive | - | 2,400,000 | (72,971) | 2,327,029 | 114,399 |
| Compensated absences | 3,587 | 38,273 | (38,091) | 3,769 | 3,769 |
| Net OPEB liability | 349,472 | 36,032 | - | 385,504 | - |
| Net pension liability | 866,322 | - | (268,921) | 597,401 | - |
| Total long-term obligations | $ 9,860,923 | $ 2,474,305 | $ (2,717,764) | $ 9,617,464 | $ 1,251,641 |

In 2008, the Authority closed on a $1.5 million loan from the State of Ohio for the Boeing Company to make facility improvements. The loan was secured by the property financed under a 10-year lease agreement and is payable solely from the payments on the underlying loan. Upon repayment of the loan, ownership of the acquired facilities transfers to the Boeing Company. The Authority was not obligated in any manner for repayment of the loans. Accordingly, the loans were not reported as liabilities in the accompanying financial statements noting final payment was made in 2018.

The Authority received authorization to secure a Recovery Zone Facility Revenue bond in an amount not to exceed $4,760,000 for the purpose of constructing commercial offices on the Authority Premises. This bond shall initially bear interest at a five year interest rate of 3.98% until the first interest period reset and the maturity shall not exceed 15 years.

The Horton Building Interior loan was approved in 2015 and relates to improvements to the existing Horton Building on the Authority's campus. The Authority was approved up to $1,101,528 for this project at an interest rate of 5%. The value of the building collateralizes the loan.

## NOTE 8 – LONG-TERM DEBT (Continued)

The MISTRAS Building loan was approved in 2015 and relates the construction of a new speculative building for the MISTRAS Group. MISTRAS is a leading "one source" global provider of technology-enabled asset protection solutions used to evaluate the structural integrity of critical energy, industrial and public infrastructure. The Authority was approved up to $4,300,000 at an interest rate of 4.82% with the building as loan collateral. The loan will be paid in monthly installments of $29,824, including interest, over 18 years.

In 2015 the Authority was approved up to $955,000 for a building construction loan, the 20K speculative building, located at 701 international drive. The loan's interest rate is 5.08%. The value of the building collateralizes the loan.

In 2016, the Authority entered into two separate loan agreements associated with the purchase 299.902 acres for the purpose of future economic development. The Seminary Ridge loan was for the purchase of land and improvements totaling $1,999,020 at an interest rate of 0% payable in four equal installments of $499,755. This loan payable through 2020. The Seminary Ridge mortgage related to the purchase of an outstanding oil and gas obligation on the property totaling $214,000 at an interest rate of 1.45%. The loan is payable through 2025 with yearly installments of $23,000. The value of the loans are collateralized by the land.

The Authority entered into a loan agreement for the construction of a new speculative building located at 704 International Drive in an amount not to exceed $1,400,000 at an interest rate of 4.73%. The value of the building collateralizes the loan. This loan was retired by the Authority in 2018.

On April 2, 2018, the Authority issued $2,400,000 taxable series 2018 revenue bonds, at an interest rate of 4.951% per annum, for the purpose of purchasing land and constructing a speculative building located at 670 Kaiser Drive. This loan will retire in 2033.

The total principal and interest requirements to retire the Authority's outstanding debt:

| | Horton Building Interior Loan | | | MISTRAS Building Loan | | |
|---|---|---|---|---|---|---|
| Year Ending December 31, | Principal | Interest | Total | Principal | Interest | Total |
| 2019 | $ 95,876 | $ 18,152 | $ 114,028 | $ 176,861 | $ 181,023 | $ 357,884 |
| 2020 | 100,809 | 13,219 | 114,028 | 185,204 | 172,681 | 357,885 |
| 2021 | 106,082 | 7,946 | 114,028 | 194,957 | 162,928 | 357,885 |
| 2022 | 98,914 | 2,455 | 101,369 | 204,701 | 153,184 | 357,885 |
| 2023 | - | - | - | 214,931 | 142,954 | 357,885 |
| 2024-2028 | - | - | - | 1,246,218 | 543,207 | 1,789,425 |
| 2029-2033 | - | - | - | 1,561,911 | 198,424 | 1,760,335 |
| Total | $ 401,681 | $ 41,772 | $ 443,453 | $ 3,784,783 | $ 1,554,401 | $ 5,339,184 |

## NOTE 8 – LONG-TERM DEBT (Continued)

| Year Ending December 31, | Recovery Zone Bond Principal | Recovery Zone Bond Interest | Recovery Zone Bond Total | Seminary Ridge Loan Principal | Seminary Ridge Loan Interest | Seminary Ridge Loan Total |
|---|---|---|---|---|---|---|
| 2019 | $ 312,508 | $ 11,870 | $ 324,378 | $ 499,755 | $ - | $ 499,755 |
| 2020 | 84,776 | 733 | 85,509 | 499,265 | - | 499,265 |
| Total | $ 397,284 | $ 12,603 | $ 409,887 | $ 999,020 | $ - | $ 999,020 |

| Year Ending December 31, | Seminary Ridge Mortgage Principal | Seminary Ridge Mortgage Interest | Seminary Ridge Mortgage Total | 20K Speculative Building Loan Principal | 20K Speculative Building Loan Interest | 20K Speculative Building Loan Total |
|---|---|---|---|---|---|---|
| 2019 | $ 21,400 | $ 1,600 | $ 23,000 | $ 27,073 | $ 29,040 | $ 56,113 |
| 2020 | 21,400 | 1,600 | 23,000 | 28,434 | 27,679 | 56,113 |
| 2021 | 21,400 | 1,600 | 23,000 | 30,027 | 26,086 | 56,113 |
| 2022 | 21,400 | 1,600 | 23,000 | 31,625 | 24,488 | 56,113 |
| 2023 | 21,400 | 1,600 | 23,000 | 33,308 | 22,805 | 56,113 |
| 2024-2028 | 42,800 | 3,200 | 46,000 | 194,979 | 85,587 | 280,566 |
| 2029-2033 | - | - | - | 225,747 | 28,056 | 253,803 |
| Total | $ 149,800 | $ 11,200 | $ 161,000 | $ 571,193 | $ 243,741 | $ 814,934 |

| Year Ending December 31, | 670 Kaiser drive Principal | 670 Kaiser drive Interest | 670 Kaiser drive Total |
|---|---|---|---|
| 2019 | $ 114,399 | $ 112,632 | $ 227,031 |
| 2020 | 120,158 | 106,873 | 227,031 |
| 2021 | 126,304 | 100,727 | 227,031 |
| 2022 | 132,676 | 94,355 | 227,031 |
| 2023 | 139,396 | 87,635 | 227,031 |
| 2024-2028 | 810,280 | 324,876 | 1,135,156 |
| 2029-2033 | 883,816 | 99,984 | 983,800 |
| Total | $ 2,327,029 | $ 927,082 | $ 3,254,111 |

## NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP

The Authority belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

## NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP (Continued)

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first $250,000 casualty treaty and 30% of the first $1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first $250,000 casualty treaty and 30% of the first $1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

*Plan members are responsi*ble to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period.

The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017 (the latest information available):

| | 2017 |
|---|---|
| Assets | $14,853,620 |
| Liabilities | (9,561,108) |
| Members' Equity | $5,292,512 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

## NOTE 10 – OPERATING LEASES – LESSOR

The revenues related to all leases, tenancy, or occupancy agreements and security deposits and guarantees affecting the Authority's campus are included in these financial statements. Lease revenue is accounted for by the straight-line method whereby such revenue is reflected over the period of the related leases. Revenue on these agreements is recognized when the lessees report the amounts owed, which approximates the period in which the revenue was earned.

The Authority leases space to tenants under noncancelable operating leases with various terms contingent on the tenant. Management expects to negotiate and extend tenant leases once they have expired. The following is a schedule of estimated future minimum rentals under the current tenant lease terms:

| Year Ended December 31, | Amount |
|---|---|
| 2019 | $5,289,418 |
| 2020 | 5,388,486 |
| 2021 | 4,413,858 |
| 2022 | 1,308,414 |
| 2022 | 1,310,715 |
| Total | $17,710,891 |

## NOTE 11 - CONDUIT DEBT

From time to time, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector and non-profit entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The tax-exempt bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

The Authority, the State of Ohio, or any political subdivision thereof is obligated in any manner for repayment on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

As of December 31, 2018, there were six series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of $169,282,161.

## NOTE 12 – SUBSEQUENT EVENT

In May 2019, the Authority authorized the issuance of revenue bonds for the TPA Group LLC project located in Etna Township, financing up to $85 million to construct a building of 1.2 million square feet.

# REQUIRED SUPPLEMENTARY INFORMATION

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST FIVE YEARS**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Authority's Proportion of the Net Pension Liability - Traditional Plan | 0.0038080% | 0.0038150% | 0.003850% | 0.003762% | 0.003762% |
| Authority's Proportionate Share of the Net Pension Liability - Traditional Plan | $ 597,401 | $ 866,322 | $ 666,869 | $ 453,739 | $ 443,491 |
| Authority's Covered-Employee Payroll | $ 525,469 | $ 493,167 | $ 479,250 | $ 381,892 | $ 440,431 |
| Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 113.69% | 175.67% | 139.15% | 118.81% | 100.69% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability Traditional Plan | 84.66% | 77.25% | 81.08% | 86.45% | 86.36% |

Note: Information prior to 2015 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented each year were determined as of the Authority's measurement date which is the prior year-end.

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF AUTHORITY'S PENSION CONTRIBUTIONS**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST TEN YEARS**

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 72,764 | $ 68,311 | $ 59,180 | $ 57,510 |
| Contributions in Relation to the Contractually Required Contribution | (72,764) | (68,311) | (59,180) | (57,510) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Authority's Covered-Employee Payroll | $ 519,743 | $ 525,469 | $ 493,167 | $ 479,250 |
| Contributions as a Percentage of Covered-Employee Payroll | 14.00% | 13.00% | 12.00% | 12.00% |

Note: Information prior to 2014 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the measurement date which is the prior year end.

| 2014 | | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| $ | 45,827 | $ | 57,256 | $ | 54,265 | $ | 51,936 | $ | 48,730 | $ | 41,233 |
| | (45,827) | | (57,256) | | (54,265) | | (51,936) | | (48,730) | | (41,233) |
| | $0 | | $0 | | $0 | | $0 | | $0 | | $0 |
| $ | 381,892 | $ | 440,431 | $ | 542,650 | $ | 519,360 | $ | 546,300 | $ | 507,171 |
| | 12.00% | | 13.00% | | 10.00% | | 10.00% | | 8.92% | | 8.13% |

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET OPEB LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST TWO YEARS**

| | 2018 | 2017 |
|---|---|---|
| Authority's Proportion of the Net OPEB Liability - Traditional Plan | 0.0035500% | 0.003460% |
| Authority's Proportionate Share of the Net OPEB Liability - Traditional Plan | $ 385,504 | $ 349,472 |
| Authority's Covered-Employee Payroll | $ 525,469 | $ 493,167 |
| Authority's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered-Employee Payroll | 73.36% | 70.86% |
| Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability Traditional Plan | 54.14% | 54.14% |

Note: Information prior to 2017 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented each year were determined as of the Authority's measurement date which is the prior year-end.

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF AUTHORITY'S OPEB CONTRIBUTIONS**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST TEN YEARS**

| | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|
| Contractually Required Contribution | $ - | $ 4,877 | $ 9,866 | $ 9,585 |
| Contributions in Relation to the Contractually Required Contribution | - | (4,877) | (9,866) | (9,585) |
| Contribution Deficiency (Excess) | $ - | $0 | $0 | $0 |
| Authority's Covered-Employee Payroll | $ 519,743 | $ 525,469 | $ 493,167 | $ 479,250 |
| Contributions as a Percentage of Covered-Employee Payroll | 0.00% | 1.00% | 2.00% | 2.00% |

Note: Information prior to 2014 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the measurement date which is the prior year end.

| 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| $ 6,544 | $ 4,089 | $ 14,650 | $ 20,774 | $ 21,793 | $ 29,815 |
| (6,544) | (4,089) | (14,650) | (20,774) | (21,793) | (29,815) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $ 381,892 | $ 440,431 | $ 542,650 | $ 519,360 | $ 546,300 | $ 507,171 |
| 1.71% | 0.93% | 2.70% | 4.00% | 3.99% | 5.88% |

## OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM (OPERS)

### PENSION

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2014-2016. For 2017, the following were the most significant changes of assumptions that affected the total pension liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 8.00% down to 7.50%, (b) for defined benefit investments, decreasing the wage inflation from 3.75% to 3.25% and (c) changing the future salary increases from a range of 4.25%-10.05% to 3.25%-10.75%. There were no changes in assumptions for 2018.

### OTHER POSTEMPLOYMENT BENEFITS

*Changes in benefit terms* : There were no changes in benefit terms from the amounts reported for 2014-2018.

*Changes in assumptions* : There were no changes in methods and assumptions used in the calculation of actuarial determined contributions for 2017. For 2018, the following were the most significant changes of assumptions that affected the total OPEB liability since the prior measurement date: (a) reduction in the actuarially assumed rate of return from 4.23% down to 3.85%.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017
(UNAUDITED)

The discussion and analysis of the Heath-Newark-Licking County Port Authority, Licking County (the Authority) financial performance provides an overall review of the Authority's financial activities for the year ended December 31, 2017. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Authority's financial performance.

## Financial Highlights

Key financial highlights for 2017 are as follows:

- The Authority's net position was $32,537,761 as of December 31, 2017 according to the Statement of Net Position. This represents an increase of $1,253,219 from last year's net position of $31,284,542.

- Operating revenues for 2017 were $4,920,704, which represents a decrease of $374,379, or 7.1% from 2016.

- Total outstanding debt during the year decreased $244,028 to $8,641,542 and is attributed to principal payments exceeding the amount of new debt issued for the year.

- The overall cash position of the Authority increased $5,120,035, which is attributed to the sale of investments and increased cash receipts over cash disbursements.

## Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to these statements. These statements are organized so the reader can understand the Authority as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The statement of net position and statement of revenues, expenses, and changes in net position provide information about the activities of the Authority as a whole, presenting both an aggregate view of the Authority's finances and a longer-term view of those finances.

## Reporting the Authority as a Whole

### *Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position*

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position answer the question, "How did we do financially during 2017?" These statements present all assets and deferred outflows of resources and liabilities and deferred inflows of resources both financial and capital, and short-term and long-term, using the accrual basis of accounting and economic resource focus, which is similar to the accounting used by most private – sector companies.

The accrual basis of accounting takes into account all revenues and expenses during the year, regardless of when the cash is received or paid. These two statements report the Authority's net position and changes in overall financial position. This change in net position is important because it tells the reader that, for the Authority as a whole, the financial position of the Authority has improved or diminished. The causes of this change may be the result of many factors, some financial, some not.

## Reporting the Authority's Most Significant Fund

### *Proprietary Fund*

The Authority maintains one proprietary fund, an enterprise fund.

## Summary of Net Position

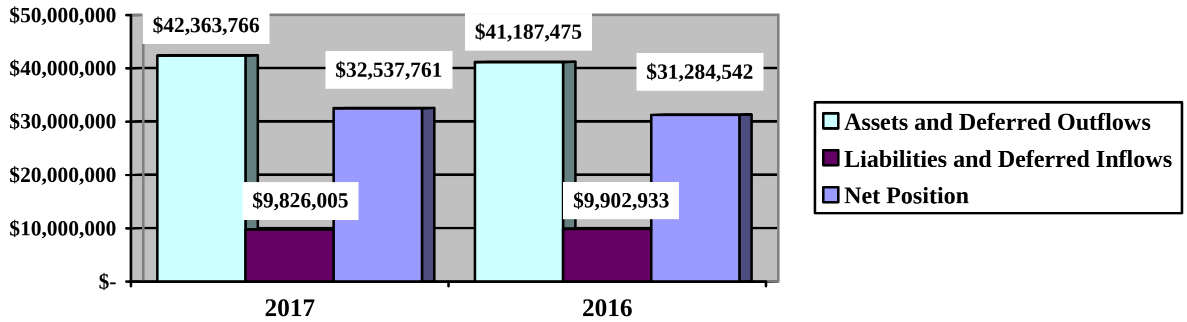
The table below provides a summary of the Authority's net position for 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Assets | | |
| Current and other assets | $ 8,352,098 | $ 8,232,989 |
| Noncurrent assets | 43,014 | 215,327 |
| Capital assets | 33,607,752 | 32,501,176 |
| Total assets | 42,002,864 | 40,949,492 |
| Deferred outflows of resources | 360,902 | 237,983 |
| Liabilities | | |
| Current liabilities | 2,422,423 | 1,400,372 |
| Noncurrent liabilities | 7,394,028 | 8,490,806 |
| Total liabilities | 9,816,451 | 9,891,178 |
| Deferred inflows of resources | 9,554 | 11,755 |
| Net Position | | |
| Net investment in capital assets | 24,934,215 | 23,550,437 |
| Unrestricted | 7,603,546 | 7,734,105 |
| Total net position | $ 32,537,761 | $ 31,284,542 |

Over time, net position can serve as a useful indicator of a government's financial position. At December 31, 2017, the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $32,537,761.

Capital assets represent the largest portion of the Authority's net position. At year-end, capital assets represented 79.3% of total assets and deferred outflows of resources. Capital assets include land, construction in progress, land improvements, infrastructure, furniture and fixtures, machinery and equipment and vehicles. Net investment in capital assets or what was required to acquire these assets at December 31, 2017 was $24,934,215. These capital assets are used to provide services and are not available for future spending. Although the Authority's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

The balance of unrestricted net position of $7,603,546 may be used to meet the Authority's ongoing obligations.




## Summary of Revenues and Expenses

The table below provides a summary of the Authority's revenues and expenses for 2017 and 2016:

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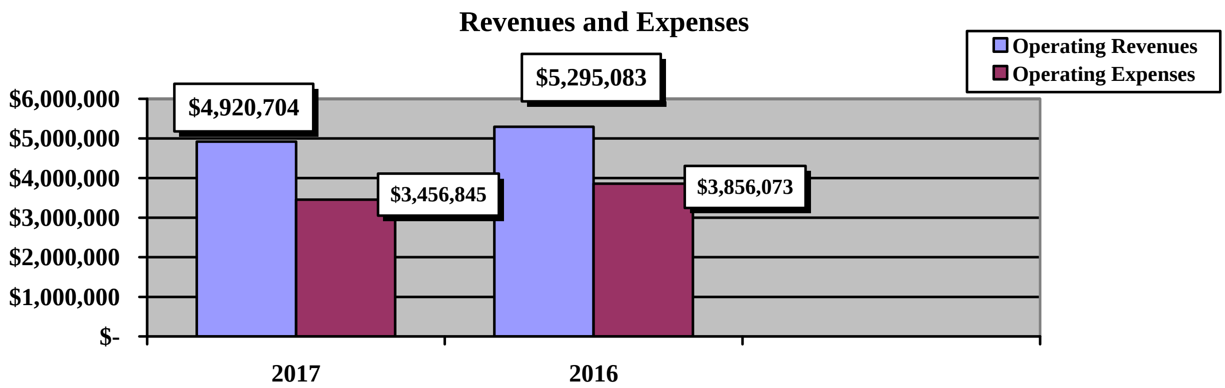
| | 2017 | 2016 |
|---|---|---|
| **Operating Revenues:** | | |
| Charges for Services - Leases | $ 4,790,049 | $ 5,233,117 |
| Other Operating Revenues | 130,655 | 61,966 |
| Total Operating Revenues | 4,920,704 | 5,295,083 |
| **Operating Expenses:** | | |
| Personnel Services | 743,129 | 965,745 |
| Materials and Supplies | 32,861 | 55,217 |
| Contractual Services | 1,461,566 | 1,746,373 |
| Depreciation | 1,219,289 | 1,088,738 |
| Total Operating Expenses | 3,456,845 | 3,856,073 |
| Operating Income | 1,463,859 | 1,439,010 |
| **Nonoperating Revenues (Expenses):** | | |
| Investment Earnings | 77,002 | 38,266 |
| Gain on sale of capital assets | 60,739 | (13,163) |
| Intergovermental | 30,000 | - |
| Interest and Fiscal Services | (325,868) | (380,366) |
| Capital contributions | 119,800 | - |
| Other Nonoperating Expenses | (172,313) | (172,716) |
| Total Nonoperating Revenues (Expenses) | (210,640) | (527,979) |
| Changes in net position | 1,253,219 | 911,031 |
| Beginning Net Position | 31,284,542 | 30,373,511 |
| Ending Net Position | $ 32,537,761 | $ 31,284,542 |

Operating revenues decreased $374,379 and operating expenses decreased $399,228 from 2016. Decreases in operating revenues are attributed to changes in tenants. Operating expenses decreased based on changes in the net pension liability and contractual related services.

The graph below presents the activity regarding the change in net position for 2017 and 2016.




***Budgeting Highlights***

Although not required under the Ohio Revised Code, an annual operating budget is adopted for management purposes. Budget information is reported to the management of the Board, and modifications may only be made by resolution of the Board.

**Capital Assets and Debt Administration**

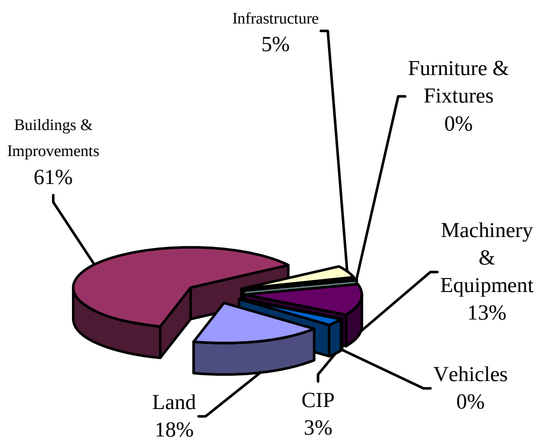
***Capital Assets***

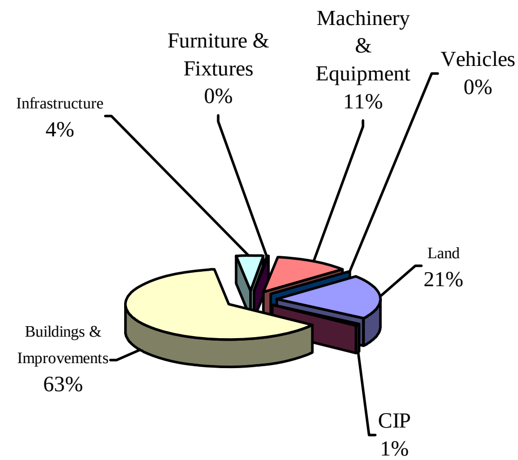
At the end of 2017, the Authority had $33,607,752 (net of accumulated depreciation) invested in land, construction in progress, land improvements, buildings and improvements, equipment, vehicles, and infrastructure. The following table shows 2017 balances compared to 2016:

**Capital Assets at December 31**

| | 2017 | 2016 |
|---|---|---|
| Land | $ 8,723,077 | $ 9,342,538 |
| Construction in Progress | 1,287,514 | 406,659 |
| Buildings and Improvements | 29,754,685 | 28,923,239 |
| Infrastructure | 2,333,202 | 1,990,793 |
| Furniture and Fixtures | 174,420 | 135,221 |
| Machinery and Equipment | 6,116,545 | 5,265,128 |
| Vehicles | 51,776 | 51,776 |
| Less: Accumulated Depreciation | (14,833,467) | (13,614,178) |
| Totals | $ 33,607,752 | $ 32,501,176 |

The following graph presents the categories of the Authority's capital assets reported at cost:




The Authority's largest capital asset category is buildings and improvements and represents 61% of total capital assets for 2017 and 63% for 2016.

See Note 5 to the basic financial statements for more detail on the Authority's capital assets.

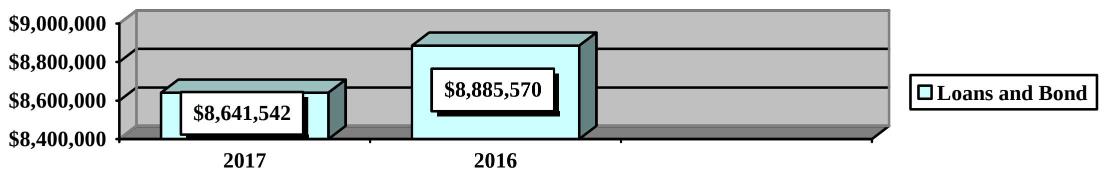
***Debt Administration***

The Authority had the following long-term obligations outstanding at December 31, 2017 and 2016:

| | 2017 | 2016 |
|---|---|---|
| Horton building interior loan | $ 492,821 | $ 579,465 |
| MISTRAS building loan | 3,955,744 | 4,118,681 |
| 20K speculative building | 606,577 | 606,577 |
| Recovery zone bond | 905,363 | 1,389,227 |
| 704 international drive loan | 1,010,817 | - |
| Seminary ridge loan | 1,499,020 | 1,999,020 |
| Seminary ridge mortgage | 171,200 | 192,600 |
| Total long-term obligations | 8,641,542 | 8,885,570 |
| Less: Due within one year | (2,113,836) | (1,061,633) |
| Net long-term obligations | $ 6,527,706 | $ 7,823,937 |

A breakdown of the Authority's long-term obligations is as follows for 2017 and 2016:

**Long-Term Obligations at December 31**




See Note 8 to the basic financial statements for more detail on the Authority's long-term debt obligations.

## Economic Conditions and Outlook

Net position is expected to increase in future years as the Authority continues to increase expansion of the base further increasing the local workforce along with the Authority's commitment to bring high quality companies to the Licking County area.

## Contacting the Authority's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information contact Erin Grigsby, Director, Finance and Compliance, Heath-Newark-Licking County Port Authority, 851 Irving-Wick Drive West, Heath, Ohio.

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

STATEMENT OF NET POSITION
DECEMBER 31, 2017

| | |
|---|---|
| **Assets:** | |
| **Current assets:** | |
| Cash and cash equivalents | $ 8,140,972 |
| Receivables: | |
| Interest | 4,000 |
| Note | 100,000 |
| Prepaid items | 107,126 |
| Total current assets | 8,352,098 |
| **Noncurrent assets:** | |
| Loan receivable | 43,014 |
| Capital assets: | |
| Land | 8,723,077 |
| Construction in progress | 1,287,514 |
| Depreciable capital assets, net | 23,597,161 |
| Total capital assets, net | 33,607,752 |
| Total noncurrent assets | 33,650,766 |
| Total assets | 42,002,864 |
| **Deferred Outflows of Resources:** | |
| Pension | 360,902 |
| **Liabilities:** | |
| **Current liabilities:** | |
| Accounts payable | 33,112 |
| Contracts payable | 31,995 |
| Accrued wages and benefits | 29,317 |
| Intergovernmental payable | 153,584 |
| Accrued interest payable | 10,825 |
| Unearned revenue | 46,167 |
| Compensated absences payable | 3,587 |
| Horton building interior loan | 93,298 |
| MISTRAS building construction loan | 182,360 |
| Seminary ridge loan | 499,755 |
| Seminary ridge mortgage | 21,400 |
| 20K speculative building | 15,901 |
| Recovery zone facility bond | 290,305 |
| 704 international drive | 1,010,817 |
| Total current liabilities | 2,422,423 |
| **Noncurrent liabilities:** | |
| Recovery zone facility bond | 615,058 |
| Horton building interior loan | 399,523 |
| MISTRAS building construction loan | 3,773,384 |
| 20K speculative building | 590,676 |
| Seminary ridge loan | 999,265 |
| Seminary ridge mortgage | 149,800 |
| Net pension liability | 866,322 |
| Total noncurrent liabilities | 7,394,028 |
| Total liabilities | 9,816,451 |
| **Deferred Inflows of Resources:** | |
| Pension | 9,554 |
| **Net Position:** | |
| Net investment in capital assets | 24,934,215 |
| Unrestricted | 7,603,546 |
| Total net position | $ 32,537,761 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | | |
|---|---|---|
| **Operating revenues:** | | |
| Charges for services - leases | $ | 4,790,049 |
| Other operating revenues | | 130,655 |
| Total operating revenues | | 4,920,704 |
| **Operating expenses:** | | |
| Personnel services | | 743,129 |
| Material and supplies | | 32,861 |
| Contractual services | | 1,461,566 |
| Depreciation | | 1,219,289 |
| Total operating expenses | | 3,456,845 |
| Operating income | | 1,463,859 |
| **Nonoperating revenues (expenses):** | | |
| Investment earnings | | 77,002 |
| Intergovernmental grants | | 30,000 |
| Interest and fiscal charges | | (325,868) |
| Gain on sale of capital assets | | 60,739 |
| Capital contributions | | 119,800 |
| Other nonoperating expenses | | (172,313) |
| Total nonoperating revenues (expenses) | | (210,640) |
| Change in net position | | 1,253,219 |
| **Net position at beginning of year** | | 31,284,542 |
| **Net position at end of year** | $ | 32,537,761 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

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

STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED DECEMBER 31, 2017

| | |
|---|---|
| **Cash flows from operating activities:** | |
| Cash received from leases | $ 4,836,216 |
| Cash received from other operating receipts | 130,655 |
| Cash payments to supplies for goods and services | (1,562,493) |
| Cash payments for employee services and benefits | (739,243) |
| Net cash provided by operating activities | 2,665,135 |
| **Cash flows from capital and related financing activities:** | |
| Intergovernmental receipts | 30,000 |
| Proceeds from loans | 1,010,817 |
| Proceeds from sale of capital assets | 800,000 |
| Principal payments - Recovery zone facility bond | (483,864) |
| Principal payments - Horton building interior loan | (86,644) |
| Principal payments - MISTRAS loan | (162,937) |
| Principal payments - Seminary ridge mortgage | (21,400) |
| Principal payments - Seminary ridge loan | (500,000) |
| Interest payments - Recovery zone facility bond | (62,514) |
| Interest payments - Horton building interior loan | (27,384) |
| Interest payments - MISTRAS loan | (194,947) |
| Interest payments - 20K speculative building | (30,814) |
| Interest payments - 704 international drive | (3,407) |
| Interest payments - Seminary ridge mortgage | (1,600) |
| Acquisition and construction of capital assets | (2,887,881) |
| Net cash used in capital and related financing activities | (2,622,575) |
| **Cash flows from investing activities:** | |
| Sale of investments | 5,000,000 |
| Interest received | 77,475 |
| Net cash provided by investing activities | 5,077,475 |
| Net increase in cash and cash equivalents | 5,120,035 |
| **Cash and cash equivalents at beginning of year** | 3,020,937 |
| **Cash and cash equivalents at end of year** | $ 8,140,972 |
| **Reconciliation of operating income to net cash provided by operating activites:** | |
| Operating income | $ 1,463,859 |
| Adjustments: | |
| Depreciation | 1,219,289 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | |
| (Increase) decrease in deferred outflows of resources - pension | (189,562) |
| (Increase) decrease in prepaid items | 453 |
| Increase (decrease) in accounts payable | (977) |
| Increase (decrease) in contracts payable | (33,174) |
| Increase (decrease) in accrued wages and benefits | 3,517 |
| Increase (decrease) in compensated absences | (113) |
| Increase (decrease) in intergovernmental payable | 17,080 |
| Increase (decrease) in net pension liability | 199,453 |
| (Increase) decrease in deferred inflows of resources - pension | 2,201 |
| Increase (decrease) in unearned revenue | (16,891) |
| Net cash provided by operating activities | $ 2,665,135 |

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units" as amended by GASB Statement No. 61, The Financial Reporting Entity: Omnibus. The reporting entity is composed of the primary government and component units. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which the Authority is financially accountable. The Authority is financially accountable for an organization if the Authority appoints a voting majority of the organization's Governing Board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; or (3) the Authority is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the Authority is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the Authority in that the Authority approves the budget, the issuance of debt or the levying of taxes. Certain organizations are also included as component units if the nature and significance of the relationship between the primary government and the organization is such that exclusion by the primary government would render the primary government's financial statements incomplete or misleading. Based upon the application of these criteria, the Authority has no component units. The basic financial statements of the reporting entity include only those of the Authority (the primary government).

### B. Basis of Presentation

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

The financial statements are presented as of December 31, 2017 and for the year then ended and have been prepared in conformity with accounting principles generally accepted in the United States of America (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).

### C. Measurement Focus

The enterprise fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflows and outflows of resources associated with the operation of these funds are included on the statement of net position.

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

### C. Measurement Focus (Continued)

The statement of change in fund 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 Authority finances and meets the cash flow needs of its proprietary activities.

### D. Basis of Accounting

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

### E. Budgetary Process

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

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

1. Budget

The Director, Finance and Compliance and Chief Executive Officer submit an annual budget and appropriations resolution for the following fiscal year to the Board of Directors by the December board meeting for consideration and passage. The adopted budget shall not exceed the total of the estimated revenues available for expenditure.

2. Estimated Resources

The Director, Finance and Compliance and Chief Executive Officer prepare estimated revenues by fund prior to consideration of the annual appropriation resolution. The Authority must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount of estimated resources. The revised budget then serves as the basis for the annual appropriations measure.

3. Appropriations

An annual appropriation resolution must be passed by the Board of Directors for the following year in December. The appropriation resolution establishes spending controls at the fund and object level (i.e. personnel services, materials and supplies, contractual services, and capital outlay). The appropriation resolution may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources. The allocation of appropriations among objects within the fund may be modified during the year by a resolution of the Board of Directors.

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

### E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

5. Lapsing of Appropriations

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

### F. Cash and Cash Equivalents

Cash balances of the Authority's funds are pooled and invested in investments in order to provide improved cash management. Individual fund integrity is maintained through the Authority's records and is presented as "Cash and Cash Equivalents" on the financial statements.

During 2017, investments were limited to a sweep account, a certificate of deposit and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as the certificate of deposit and sweep account are reported at cost.

STAR Ohio (the State Treasury Asset Reserve of Ohio), is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but has adopted Governmental Accounting Standards Board (GASB), Statement No. 79, "Certain External Investment Pools and Pool Participants." The Authority measures its investment in STAR Ohio at the net asset value (NAV) per share provided by STAR Ohio. The NAV per share is calculated on an amortized cost basis that provides an NAV per share that approximates fair value.

For 2017, there were no limitations or restrictions on any participant withdrawals due to redemption notice periods, liquidity fees, or redemption gates. However, notice must be given 24 hours in advance of all deposits and withdrawals exceeding $25 million. STAR Ohio reserves the right to limit the transaction to $50 million, requiring the excess amount to be transacted the following business day(s), but only to the $50 million limit. All accounts of the participant will be combined for these purposes.

Interest revenue earned and credited during 2017 amounted to $77,002.

For purpose of the statement of cash flows and for presentation on the financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

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

**G. Fair Value**

The 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. All investments of the Authority are reported at cost.

**H. Capital Assets and Depreciation**

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

Property, plant and equipment acquired by the enterprise funds are stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Donated capital assets are recorded at their acquisition 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) |
|---|---|
| Infrastructure | 20 – 50 |
| Buildings | 20 – 50 |
| Building Improvements | 10 – 50 |
| Improvements Other than Buildings | 10 – 20 |
| Vehicles | 3 – 15 |
| Furniture & Equipment | 3 – 25 |
| Computer Equipment | 3 – 15 |

**I. Compensated Absences**

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

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

**J. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension systems.

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

For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

**K. Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources have been reported for the following two items related the Authority's net pension liability: (1) the difference between expected and actual experience of the pension systems, and (2) the Authority's contributions to the pension systems subsequent to the measurement date.

In addition to liabilities, the Authority reports a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Authority, deferred inflows of resources represent the net difference between projected and actual earnings on pension plan investments related to the Authority's net pension liability.

**L. Net Position**

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net investment in capital assets is reported net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Restricted net position would consist of monies and other resources, which are restricted to satisfy debt service requirements as specified in debt agreements.

**M. Operating Revenues & Expenses**

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

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

**N. Economic Dependency**

The Authority receives approximately 97.3% of its operating revenue from tenant leases. Due to the significance of this revenue, the Authority is considered economically dependent on lease revenues.

**NOTE 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash resources of the Authority are combined to form a pool of cash and investments. The 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 Authority 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 Authority into three categories.

Category I consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the 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 obligations or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

- 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).

## NOTE 2 – POOLED CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

### Deposits

Custodial credit risk is the risk that in the event of bank failure, the government's deposit may not be returned. Protection of 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 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 Authority's deposits was $551,217 and based on the criteria described in GASB Statement No. 40, "*Deposits and Investment Risk Disclosures*", as of December 31, 2017, $250,011 of the Authority's bank balance of $555,030 was exposed to custodial risk as discussed below, while $305,019 was covered by the FDIC.

### Investments

The Authority invested in STAR Ohio that was reported at amortized cost of $5,038,863 and an overnight sweep account, which has no credit rating, in the amount of $2,550,892.

***Interest Rate Risk*** – As a means of limiting its exposure to fair value losses arising from rising interest rates and according to State law, the Authority's investment policy limits investment portfolio maturities to five years or less.

***Concentration of Credit Risk*** – STAR Ohio carries a rating of AAAm by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Authority's investment policy does not specifically address credit risk beyond the adherence to all relevant sections of the Ohio Revised Code.

***Custodial Credit Risk*** – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority has no investment policy dealing with investment custodial risk beyond the requirement in State statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

## NOTE 3 – LOAN RECEIVABLE

In 2008, the Authority entered into a 10-year lease agreement with the Boeing Company that included a $500,000 loan. Boeing is making monthly installment payments totaling $50,000 over 10 years at 5.0%. The remaining $450,000 of the loan is due at the end of 10 years only if the 10 year lease on the equipment is terminated early. The amount of $43,014 was reported as a loan receivable by the Authority at December 31, 2017.

## NOTE 4 – NOTE RECEIVABLE

The Authority entered into a promissory note with the Southgate Company Limited Partnership specific to the sale of land. The principal sum of the promissory note is $100,000 and interest shall accrue on the outstanding principal balance at the rate of 4% per annum. This note is expected to be repaid during 2018.

## NOTE 5 - CAPITAL ASSETS

A summary of capital assets at December 31, 2017:

| | Balance 12/31/2016 | Additions | Deletions | Balance 12/31/2017 |
|---|---|---|---|---|
| **Nondepreciable Capital Assets** | | | | |
| Land | $9,342,538 | $119,800 | ($739,261) | $8,723,077 |
| Construction in Progress | 406,659 | 1,287,514 | (406,659) | 1,287,514 |
| Total Nondepreciable Capital Assets | 9,749,197 | 1,407,314 | (1,145,920) | 10,010,591 |
| **Depreciable Capital Assets** | | | | |
| Buildings and Improvements | 28,923,239 | 831,446 | 0 | 29,754,685 |
| Infrastructure | 1,990,793 | 342,409 | 0 | 2,333,202 |
| Furniture and Fixtures | 135,221 | 39,199 | 0 | 174,420 |
| Machinery and Equipment | 5,265,128 | 851,417 | 0 | 6,116,545 |
| Vehicles | 51,776 | 0 | 0 | 51,776 |
| Total at Historical Cost | 36,366,157 | 2,064,471 | 0 | 38,430,628 |
| Less: Accumulated Depreciation | | | | |
| Buildings and Improvements | (9,445,351) | (782,890) | 0 | (10,228,241) |
| Infrastructure | (775,563) | (49,340) | 0 | (824,903) |
| Furniture and Fixtures | (125,305) | (5,925) | 0 | (131,230) |
| Machinery and Equipment | (3,242,073) | (375,954) | 0 | (3,618,027) |
| Vehicles | (25,886) | (5,180) | 0 | (31,066) |
| Total Accumulated Depreciation | (13,614,178) | (1,219,289) | 0 | (14,833,467) |
| Depreciable Capital Assets, Net of Accumulated Depreciation | 22,751,979 | 845,182 | 0 | 23,597,161 |
| Capital Assets, Net | $32,501,176 | $2,252,496 | ($1,145,920) | $33,607,752 |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS

***Net Pension Liability***

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions-–between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents the Authority's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits the Authority's obligation for this liability to annually required payments. The Authority cannot control benefit terms or the manner in which pensions are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including pension.

GASB 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to the net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued wages and benefits on the accrual basis of accounting.

### *Plan Description – Ohio Public Employees Retirement System (OPERS)*

Plan Description - Authority employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional pension plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g. Authority employees) may elect the member-directed plan and the combined plan, substantially all employee members are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan.

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional plan as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information):

| **Group A**<br>Eligible to retire prior to January 7, 2013 or five years after January 7, 2013 | **Group B**<br>20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013 | **Group C**<br>Members not in other Groups and members hired on or after January 7, 2013 |
|---|---|---|
| **State and Local** | **State and Local** | **State and Local** |
| **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 60 with 60 months of service credit or Age 55 with 25 years of service credit | **Age and Service Requirements:**<br>Age 57 with 25 years of service credit or Age 62 with 5 years of service credit |
| **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30 | **Formula:**<br>2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35 |

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career. Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

**NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)**

| | State and Local |
|---|---|
| **2017 Statutory Maximum Contribution Rates** | |
| Employer | 14.0 % |
| Employee | 10.0 % |
| **2017 Actual Contribution Rates** | |
| Employer: | |
| Pension | 13.0 % |
| Post-employment Health Care Benefits | 1.0 |
| Total Employer | 14.0 % |
| Employee | 10.0 % |

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractually required contribution was $68,311 for 2017. Of this amount, $5,420 is reported as a component of accrued wages and benefits.

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability for OPERS was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on the Authority's share of contributions to the pension plan relative to the contributions of all participating entities.

Following is information related to the proportionate share and pension expense:

| | OPERS |
|---|---|
| **Traditional Plan** | |
| Proportion of the net pension liability prior measurement date | 0.00385000% |
| Proportion of the net pension liability current measurement date | 0.00381500% |
| Change in proportionate share | -0.00003500% |
| | |
| Proportionate share of the net pension liability - Traditional Plan | $ 866,322 |
| Pension expense | $ 183,378 |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | OPERS |
|---|---|
| **Deferred Outflows of Resources** | |
| Differences between expected and actual experience | $1,174 |
| Changes of assumptions | 137,409 |
| Net difference between projected and actual earnings on pension plan investments | 129,015 |
| Changes in proportion and differences between Authority contributions and proportionate share of contributions | 24,993 |
| Authority contributions subsequent to the measurement date | 68,311 |
| Total Deferred Outflows of Resources | $360,902 |
| | |
| **Deferred Inflows of Resources** | |
| Differences between expected and actual experience | $5,156 |
| Changes in proportion and differences between Authority contributions and proportionate share of contributions | 4,398 |
| Total Deferred Inflows of Resources | $9,554 |

$68,311 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

| Year Ending December 31: | OPERS |
|---|---|
| 2018 | $127,149 |
| 2019 | 110,720 |
| 2020 | 46,976 |
| 2021 | (1,808) |
| Total | $283,037 |

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation.

In 2016, the Authority's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuation, reflecting experience results, are presented as follows:

| | |
|---|---|
| Wage Inflation | 3.25 percent |
| Future Salary Increases, including inflation | 3.25 to 10.75 percent including wage inflation |
| COLA or Ad Hoc COLA | 3 percent simple through 2018, then 2.15% simple |
| Investment Rate of Return | 7.5 percent |
| Actuarial Cost Method | Individual Entry Age |

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the described tables.

The allocation of investment assets within the Defined Benefit portfolio is approved by the Board as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The following table displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return.

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

| Asset Class | Target Allocation 2016 | Weighted Average Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Fixed Income | 23.00 % | 2.75 % |
| Domestic Equities | 20.70 | 6.34 |
| Real Estate | 10.00 | 4.75 |
| Private Equity | 10.00 | 8.97 |
| International Equities | 18.30 | 7.95 |
| Other investments | 18.00 | 4.92 |
| Total | 100.00 % | 5.66 % |

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

***Discount Rate*** The discount rate used to measure the total pension liability was 7.5%, post-experience study results, for the Traditional Pension Plan, Combined Plan and Member-Directed Plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the Traditional Pension Plan, Combined Plan and Member-Directed Plan was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the Authority's Proportionate Share of the Net Pension Liability/ to Changes in the Discount Rate*** The following table presents the net pension liability calculated using the discount rate of 7.5%, and the expected net pension liability if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

## NOTE 6 - DEFINED BENEFIT PENSION PLANS (Continued)

| | 1% Decrease (6.50%) | Current Discount Rate (7.50%) | 1% Increase (8.50%) |
|---|---|---|---|
| Authority's proportionate share of the net pension liability: | | | |
| Traditional Plan | $ 1,323,500 | $ 866,322 | $ 485,344 |

## NOTE 7 - POSTRETIREMENT BENEFIT PLANS

Plan Description – The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional pension plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

In March 2016, OPERS received two favorable rulings from the Internal Revenue Service (IRS) allowing OPERS to consolidate all health care assets into the OPERS 115 Health Care Trust. Transition to the new health care trust structure was completed July 1, 2016. OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS sponsored health care coverage. OPERS funds a Retiree Medical Account (RMA) for participants in the Member-Directed Plan. At retirement or refund, participants can be reimbursed for qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting https://www.opers.org/financial/reports.shtml, by writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

## NOTE 7 - POSTRETIREMENT BENEFIT PLANS (Continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14.0 percent of earnable salary. This is the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 2.0 percent during calendar year 2016, and was 1.0 percent during calendar year 2017. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4.0 percent.

The Authority's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple employer trusts. The corresponding contribution for the years ended December 31, 2017, 2016, and 2015 was $4,877, $9,866, and $9,585, respectively. 89.9% has been contributed for 2017 and 100% has been contributed for 2016 and 2015. The remaining 2017 post-employment health-care benefit liability has been reported as accrued wages and benefits on the basic financial statements.

## NOTE 8 – LONG-TERM DEBT

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

| | Balance Outstanding 12/31/16 | Additions | Reductions | Balance Outstanding 12/31/17 | Amounts Due in One Year |
|---|---|---|---|---|---|
| Recovery zone bond | $ 1,389,227 | $ - | $ (483,864) | $ 905,363 | $ 290,305 |
| Horton building interior loan | 579,465 | - | (86,644) | 492,821 | 93,298 |
| MISTRAS building loan | 4,118,681 | - | (162,937) | 3,955,744 | 182,360 |
| 20K speculative building | 606,577 | - | - | 606,577 | 15,901 |
| 704 international drive | - | 1,010,817 | - | 1,010,817 | 1,010,817 |
| Seminary ridge loan | 1,999,020 | - | (500,000) | 1,499,020 | 499,755 |
| Seminary ridge mortgage | 192,600 | - | (21,400) | 171,200 | 21,400 |
| Compensated absences | 3,700 | 35,250 | (35,363) | 3,587 | 3,587 |
| Net pension liability | 666,869 | 199,453 | - | 866,322 | - |
| Total long-term obligations | $ 9,556,139 | $ 1,245,520 | $ (1,290,208) | $ 9,511,451 | $ 2,117,423 |

In 2008, the Authority closed on a $1.5 million loan from the State of Ohio for the Boeing Company to make facility improvements. The loan is secured by the property financed under a 10-year lease agreement and is payable solely from the payments on the underlying loan. Upon repayment of the loan, ownership of the acquired facilities transfers to the Boeing Company. The Authority is not obligated in any manner for repayment of the loans. Accordingly, the loans are not reported as liabilities in the accompanying financial statements.

**NOTE 8 – LONG-TERM DEBT (Continued)**

The Authority received authorization to secure a Recovery Zone Facility Revenue bond in an amount not to exceed $4,760,000 for the purpose of constructing commercial offices on the Authority Premises. This bond shall initially bear interest at a five year interest rate of 3.98% until the first interest period reset and the maturity shall not exceed 15 years.

The Horton Building Interior loan was approved in 2015 and relates to improvements to the existing Horton Building on the Authority's campus. The Authority was approved up to $1,101,528 for this project at an interest rate of 5%. The value of the building collateralizes the loan.

The MISTRAS Building loan was approved in 2015 and relates the construction of a new speculative building for the MISTRAS Group. MISTRAS is a leading "one source" global provider of technology-enabled asset protection solutions used to evaluate the structural integrity of critical energy, industrial and public infrastructure. The Authority was approved up to $4,300,000 at an interest rate of 4.82% with the building as loan collateral. The loan will be paid in monthly installments of $29,824, including interest, over 18 years.

In 2015 the Authority was approved up to $955,000 for a building construction loan, the 20K speculative building, located at 701 international drive. The loan's interest rate is 5.08%. The value of the building collateralizes the loan.

In 2016, the Authority entered into two separate loan agreements associated with the purchase 299.902 acres for the purpose of future economic development. The Seminary Ridge loan was for the purchase of land and improvements totaling $1,999,020 at an interest rate of 0% payable in four equal installments of $499,755. This loan payable through 2020. The Seminary Ridge mortgage related to the purchase of an outstanding oil and gas obligation on the property totaling $214,000 at an interest rate of 1.45%. The loan is payable through 2025 with yearly installments of $23,000. The value of the loans are collateralized by the land.

The Authority entered into a loan agreement for the construction of a new speculative building located at 704 International Drive in an amount not to exceed $1,400,000 at an interest rate of 4.73%. The value of the building collateralizes the loan. This loan was retired by the Authority in 2018.

The total principal and interest requirements to retire the Authority's outstanding debt:

| | Horton Building Interior Loan | | | MISTRAS Building Loan | | |
|---|---|---|---|---|---|---|
| Year Ending December 31, | Principal | Interest | Total | Principal | Interest | Total |
| 2018 | $ 93,298 | $ 20,731 | $ 114,029 | $ 182,360 | $ 172,052 | $ 354,412 |
| 2019 | 95,988 | 18,040 | 114,028 | 181,520 | 177,892 | 359,412 |
| 2020 | 100,927 | 13,101 | 114,028 | 189,978 | 169,434 | 359,412 |
| 2021 | 106,206 | 7,823 | 114,029 | 199,828 | 159,584 | 359,412 |
| 2022 | 96,402 | 2,336 | 98,738 | 209,675 | 149,737 | 359,412 |
| 2023-2027 | - | - | - | 1,213,500 | 583,560 | 1,797,060 |
| 2028-2032 | - | - | - | 1,543,532 | 253,528 | 1,797,060 |
| 2033 | - | - | - | 235,351 | 4,256 | 239,607 |
| Total | $ 492,821 | $ 62,031 | $ 554,852 | $ 3,955,744 | $ 1,670,043 | $ 5,625,787 |

## NOTE 8 – LONG-TERM DEBT (Continued)

| Year Ending December 31, | Recovery Zone Bond Principal | Recovery Zone Bond Interest | Recovery Zone Bond Total | Seminary Ridge Loan Principal | Seminary Ridge Loan Interest | Seminary Ridge Loan Total |
|---|---|---|---|---|---|---|
| 2018 | $ 290,305 | $ 34,072 | $ 324,377 | $ 499,755 | $ - | $ 499,755 |
| 2019 | 301,012 | 23,366 | 324,378 | 499,755 | - | 499,755 |
| 2020 | 314,046 | 8,358 | 322,404 | 499,510 | - | 499,510 |
| Total | $ 905,363 | $ 65,796 | $ 971,159 | $ 1,499,020 | $ - | $ 1,499,020 |

| Year Ending December 31, | Seminary Ridge Mortgage Principal | Seminary Ridge Mortgage Interest | Seminary Ridge Mortgage Total | 20K Speculative Building Loan Principal | 20K Speculative Building Loan Interest | 20K Speculative Building Loan Total |
|---|---|---|---|---|---|---|
| 2018 | $ 21,400 | $ 1,600 | $ 23,000 | $ 15,901 | $ 20,081 | $ 35,982 |
| 2019 | 21,400 | 1,600 | 23,000 | 28,539 | 29,346 | 57,885 |
| 2020 | 21,400 | 1,600 | 23,000 | 29,943 | 27,942 | 57,885 |
| 2021 | 21,400 | 1,600 | 23,000 | 31,581 | 26,304 | 57,885 |
| 2022 | 21,400 | 1,600 | 23,000 | 33,223 | 24,662 | 57,885 |
| 2023-2027 | 64,200 | 4,800 | 69,000 | 193,822 | 95,603 | 289,425 |
| 2028-2032 | - | - | - | 249,752 | 39,676 | 289,428 |
| 2033 | - | - | - | 23,816 | 302 | 24,118 |
| Total | $ 171,200 | $ 12,800 | $ 184,000 | $ 606,577 | $ 263,916 | $ 870,493 |

## NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP

The Authority belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments (“Members”). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member’s risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member’s exposure to loss. Until November 1, 2016, the OPRM retained 50% of the premium and losses on the first $250,000 casualty treaty and 30% of the first $1,000,000 property treaty. Effective November 1, 2017, the OPRM retained 47% of the premium and losses on the first $250,000 casualty treaty and 30% of the first $1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 764 members as of December 31, 2017.

*Plan members are responsi*ble to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period.

**NOTE 9 - RISK MANAGEMENT – RISK POOL MEMBERSHIP (Continued)**

The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2017:

| | 2017 |
|---|---|
| Assets | $14,853,620 |
| Liabilities | (9,561,108) |
| Members' Equity | $5,292,512 |

You can read the complete audited financial statements for OPRM at the Plan's website, www.ohioplan.org.

**NOTE 10 – OPERATING LEASES – LESSOR**

The revenues related to all leases, tenancy, or occupancy agreements and security deposits and guarantees affecting the Authority's campus are included in these financial statements. Lease revenue is accounted for by the straight-line method whereby such revenue is reflected over the period of the related leases. Revenue on these agreements is recognized when the lessees report the amounts owed, which approximates the period in which the revenue was earned.

The Authority leases space to tenants under noncancelable operating leases with various terms contingent on the tenant. Management expects to negotiate and extend tenant leases once they have expired. The following is a schedule of estimated future minimum rentals under the current tenant lease terms:

| Year Ended December 31, | Amount |
|---|---|
| 2018 | $5,559,469 |
| 2019 | 5,289,418 |
| 2020 | 5,388,486 |
| 2021 | 4,413,858 |
| 2022 | 1,308,414 |
| Total | $21,959,465 |

**NOTE 11 - CONDUIT DEBT**

From time to time, the Authority has issued Industrial Revenue Bonds to provide financial assistance to private-sector and non-profit entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The tax-exempt bonds are secured by the property financed. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance.

The Authority, the State of Ohio, or any political subdivision thereof is obligated in any manner for repayment on the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying basic financial statements.

**NOTE 11 - CONDUIT DEBT (Continued)**

As of December 31, 2017, there were three series of Industrial Revenue Bonds outstanding with an aggregate principal amount payable of $154,098,186.

**NOTE 12 – SUBSEQUENT EVENT**

In February 2018, the Authority authorized $2.4 million in financing from North Valley Bank for the purchase of 670 Kaiser Drive.

In March 2018, the Authority retired the outstanding loan associated with 704 International Drive.

In May 2019, the Authority authorized issuance of revenue bonds for the TPA Group LLC project located in Etna Township, financing up to $85 million to construct a building of 1.2 million square feet.

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST FOUR YEARS**
**(SEE ACCOUNTANT'S COMPILATION REPORT)**

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Authority's Proportion of the Net Pension Liability - Traditional Plan | 0.0038150% | 0.003850% | 0.003762% | 0.003762% |
| Authority's Proportionate Share of the Net Pension Liability - Traditional Plan | $ 866,322 | $ 666,869 | $ 453,739 | $ 443,491 |
| Authority's Covered-Employee Payroll | $ 493,167 | $ 479,250 | $ 381,892 | $ 440,431 |
| Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll | 175.67% | 139.15% | 118.81% | 100.69% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability Traditional Plan | 77.25% | 81.08% | 86.45% | 86.36% |

Note: Information prior to 2014 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented each year were determined as of the Authority's measurement date which is the prior year-end.

SEE ACCOMPANYING NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION.

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

**REQUIRED SUPPLEMENTARY INFORMATION**
**SCHEDULE OF AUTHORITY'S PENSION CONTRIBUTIONS**
**OHIO PUBLIC EMPLOYEES RETIREMENT SYSTEM**
**LAST TEN YEARS**
**(SEE ACCOUNTANT'S COMPILATION REPORT)**

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Contractually Required Contribution | $ 68,311 | $ 59,180 | $ 57,510 | $ 45,827 |
| Contributions in Relation to the Contractually Required Contribution | (68,311) | (59,180) | (57,510) | (45,827) |
| Contribution Deficiency (Excess) | $0 | $0 | $0 | $0 |
| Authority's Covered-Employee Payroll | $ 525,469 | $ 493,167 | $ 479,250 | $ 381,892 |
| Contributions as a Percentage of Covered-Employee Payroll | 13.00% | 12.00% | 12.00% | 12.00% |

Note: Information prior to 2014 was unavailable. The schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Amounts presented for each year were determined as of the measurement date which is the prior year end.

| 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| $ 57,256 | $ 54,265 | $ 51,936 | $ 48,730 | $ 41,233 | $ 30,938 |
| (57,256) | (54,265) | (51,936) | (48,730) | (41,233) | (30,938) |
| $0 | $0 | $0 | $0 | $0 | $0 |
| $ 440,431 | $ 542,650 | $ 519,630 | $ 546,300 | $ 507,171 | $ 441,971 |
| 13.00% | 10.00% | 10.00% | 8.92% | 8.13% | 7.00% |

### Ohio Public Employees Retirement System

Information about factors that significantly affect trends in the amounts reported in the schedules should be presented as notes to the schedule.

**Change in Benefit Terms:** There were no changes in benefit terms from the amounts reported between years.

**Changes in Assumptions:** There were no changes in methods and assumptions used in the calculation of actuarial determined contributions between years. See the notes to the basic financial statements for the methods and assumptions in the calculations.

OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215-3506
(614) 466-3402 or (800) 443-9275
CentralRegion@ohioauditor.gov

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

Heath-Newark-Licking County Port Authority
Licking County
851 Irving-Wick Drive West
Heath, Ohio 43056

To the Board of Directors:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the Heath-Newark-Licking County Port Authority, Licking County, (the Authority) as of and for the years ended December 31, 2018 and 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 October 2, 2019, wherein we noted in 2018 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the Authority's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Authority's financial statements. 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 internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### *Compliance and Other Matters*

As part of reasonably assuring whether the Authority's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

### *Purpose of this Report*

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Keith Faber
Auditor of State

Columbus, Ohio

October 2, 2019

OHIO AUDITOR OF STATE
KEITH FABER

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

**LICKING COUNTY**

**CLERK'S CERTIFICATION**

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

Susan Babbitt

**CLERK OF THE BUREAU**

**CERTIFIED**
**OCTOBER 22, 2019**