

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

Basic Financial Statements

December 31, 2015

with Independent Auditors' Report





# Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the Lancaster Port Authority, Fairfield County, prepared by Clark, Schaefer, Hackett & Co., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Lancaster Port Authority is responsible for compliance with these laws and regulations.

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

September 7, 2016

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## INDEPENDENT AUDITORS' REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Lancaster Port Authority (the Authority), a component unit of the City of Lancaster, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## **Other Matters**

### *Required Supplementary Information*

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
June 28, 2016

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2015***

***Unaudited***

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The discussion and analysis of the Lancaster Port Authority's (the "Port Authority") financial performance provides an overall review of the Port Authority's financial activities for the year ended December 31, 2015. The intent of this discussion and analysis is to look at the Port Authority's financial performance as a whole; readers should also review the financial statements and notes to the basic financial statements to enhance their understanding of the Port Authority's financial performance.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for 2015 are as follows:

- Assets increased from \$427,324,809 to \$474,273,826 due to an increase in the value of the derivative instruments. This was somewhat offset by a decrease in the prepaid gas contract.
- Capital Assets increased due to the construction of a 50,400 square foot industrial building for lease or sale to attract jobs and investment to the City of Lancaster.
- Liabilities decreased due to the decrease in the value of the derivative instruments and payment on the revenue bonds.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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*Management's Discussion and Analysis  
For the Year Ended December 31, 2015*

*Unaudited*

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**FINANCIAL ANALYSIS OF THE PORT AUTHORITY**

The following tables represent the Port Authority's condensed financial information for 2015 and 2014 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	<u>2015</u>	<u>2014</u>
Current Assets	\$14,575,781	\$15,762,886
Other assets	457,425,129	410,700,585
Capital assets, Net	<u>2,272,916</u>	<u>861,338</u>
Total Assets	<u>474,273,826</u>	<u>427,324,809</u>
Deferred Outflows of Resources	<u>9,587,145</u>	<u>13,231,095</u>
Current Liabilities	793,765	306,458
Other Liabilities	9,587,145	13,231,095
Long-term debt outstanding	<u>307,645,201</u>	<u>320,166,502</u>
Total Liabilities	<u>318,026,111</u>	<u>333,704,055</u>
Deferred Inflows of Resources	<u>251,404,639</u>	<u>191,624,358</u>
Net Position:		
Investment in Capital Assets	2,272,916	861,338
Unrestricted	<u>(87,842,695)</u>	<u>(85,633,847)</u>
Total Net Position	<u><u>(\$85,569,779)</u></u>	<u><u>(\$84,772,509)</u></u>

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**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

**Management's Discussion and Analysis  
For the Year Ended December 31, 2015**

**Unaudited**

Changes in Net Position – The following table shows the changes in net position for 2015 compared to 2014:

	<u>2015</u>	<u>2014</u>
Revenues		
Gas Supply	\$5,666,848	\$9,474,189
Total revenues	<u>5,666,848</u>	<u>9,474,189</u>
Expenses		
Supplies and Materials - Cost of Gas Sold	168,770	4,365,004
Contractual Services	122,208	2,166,557
Depreciation	<u>17,757</u>	<u>17,757</u>
Total expenses	<u>308,735</u>	<u>6,549,318</u>
Operating Income	5,358,113	2,924,871
Nonoperating Revenues/(Expenses)		
Intergovernmental Grants	0	12,448
Investment Earnings	1,471	1,558
Interest and Fiscal Charges	(6,162,864)	(10,659,298)
Other Nonoperating Revenue	6,010	0
Loss on Disposal of Capital Asset	(166,969)	0
Capital Contributions	<u>166,969</u>	<u>0</u>
Total Change in Net Position	<u>(797,270)</u>	<u>(7,720,421)</u>
Beginning Net Position	<u>(84,772,509)</u>	<u>(77,052,088)</u>
Ending Net Position	<u><u>(\$85,569,779)</u></u>	<u><u>(\$84,772,509)</u></u>

Net Position decreased by \$797,270. The decrease in net position was slight this year. This was the result of refunding the gas supply revenue bonds in 2014 which decreased interest expense. In addition, the price of natural gas decreased approximately 50%, which also affected the revenue charged to the City and the commodity swap activity.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2015 the Port Authority had \$2,272,916 net of accumulated depreciation invested in capital assets. The following table shows 2015 and 2014 balances:

	<u>2015</u>	<u>2014</u>	Increase (Decrease)
Land	\$141,996	\$106,200	\$35,796
Buildings and Improvements	232,586	232,586	0
Infrastructure	614,326	614,326	0
Construction in Progress	1,393,539	0	1,393,539
Less: Accumulated Depreciation	<u>(109,531)</u>	<u>(91,774)</u>	<u>(17,757)</u>
Totals	<u><u>\$2,272,916</u></u>	<u><u>\$861,338</u></u>	<u><u>\$1,411,578</u></u>

The increase in Construction in Progress is due to the construction of a 50,400 square foot industrial building for sale or lease to attract jobs and investment to Lancaster.

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Management's Discussion and Analysis  
For the Year Ended December 31, 2015***

***Unaudited***

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***Debt***

The following table summarizes the Port Authority's debt outstanding as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Revenue Bonds Payable	<u>\$307,645,201</u>	<u>\$320,166,502</u>

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

**ECONOMIC FACTORS**

The current project known as the brownfield Ray-O-Vac site, a five acre site located at 330 South Ewing Street, has been environmentally cleared, utilities installed, and road completed, providing five lots for commercial redevelopment. The former blighted site is close to the Fairfield Medical Center and has frontage to one of Lancaster's busiest routes. LPA is has received a "No Further Action" (NFA) letter from Ohio EPA. Five lots are now being marketed and the existing building (4,000 square feet) is under costs review to make it move-in ready.

LPA is constructing and has nearly completed a 50,400 square foot industrial building that can be leased or sold and is located in Lancaster's Rock Mill Industrial Park at 619 Mill Park Drive. Marketing has begun with expectations to lease or sell in 2016.

**REQUESTS FOR INFORMATION**

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Net Position  
December 31, 2015***

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**ASSETS**

Current assets:

Cash and Cash Equivalents	\$842,154
Accounts Receivable	364,103
Prepaid Gas Supply - Current	13,369,524
Total Current Assets	<u>14,575,781</u>

Noncurrent Assets:

Prepaid Gas Supply - Long Term	199,882,603
Land Held for Resale	140,400
Fair Value of Derivative Instruments	251,404,639

Restricted Assets:

Cash and cash equivalents	5,997,487
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Capital Assets

Capital Assets Not Being Depreciated	1,535,535
Capital Assets Being Depreciated, net	737,381
Total Capital Assets	<u>2,272,916</u>
Total Noncurrent Assets	<u>459,698,045</u>
Total Assets	<u>474,273,826</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflow from Derivative Instruments	<u>9,587,145</u>
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**LIABILITIES**

Current Liabilities:

Accounts Payable	324,000
Unearned Revenue	94,500
Accrued Interest	240,109
Retainage Payable	135,156
Bond Payable-current	13,545,000
Total Current Liabilities	<u>14,338,765</u>

Noncurrent Liabilities:

Bond Payable-long term	294,100,201
Fair Value of Derivative Instruments	9,587,145
Total Noncurrent Liabilities	<u>303,687,346</u>
Total Liabilities	<u>318,026,111</u>

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflow from Derivative Instruments	<u>251,404,639</u>
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**NET POSITION**

Investment in Capital Assets	2,272,916
Unrestricted	<u>(87,842,695)</u>
Total Net Position	<u><u>(\$85,569,779)</u></u>

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Revenues, Expenses and Changes in Net Position  
For the Year Ended December 31, 2015***

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<u>Operating Revenues:</u>	
Gas Supply	\$5,666,848
Total Operating Revenues	<u>5,666,848</u>
<u>Operating Expenses:</u>	
Materials and Supplies - cost of gas sold	168,770
Contractual services	122,208
Depreciation	<u>17,757</u>
Total Operating Expenses	<u>308,735</u>
Operating Income	5,358,113
<u>Nonoperating Revenues (Expenses):</u>	
Investment Earnings	1,471
Interest and Fiscal Charges	(6,162,864)
Other Nonoperating Revenues	6,010
Loss on Disposal of Capital Asset	<u>(166,969)</u>
Total Nonoperating Revenues (Expenses)	<u>(6,322,352)</u>
Loss Before Contributions	(964,239)
Capital Contributions	<u>166,969</u>
Change in Net Position	(797,270)
Net Position at Beginning of Year	<u>(84,772,509)</u>
Net Position at End of Year	<u><u>(\$85,569,779)</u></u>

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Statement of Cash Flows  
For the Year Ended December 31, 2015***

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<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$6,032,433
Cash Received from Swap Providers	13,570,733
Cash Payments for Goods and Services	<u>(122,208)</u>
Net Cash Provided by Operating Activities	<u>19,480,958</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Principal Payment on Revenue Bond Payable	(12,825,000)
Interest Paid on Debt	<u>(5,831,014)</u>
Net Cash Used by Noncapital Financing Activities	<u>(18,656,014)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Capital Assets	<u>(970,179)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(970,179)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipts of Interest Earnings	<u>1,471</u>
Net Cash Provided by Investing Activities	<u>1,471</u>
Net Decrease in Cash and Cash Equivalents	(143,764)
Cash and Cash Equivalents at Beginning of Year	<u>6,983,405</u>
Cash and Cash Equivalents at End of Year	<u><u>\$6,839,641</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$5,358,113
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Miscellaneous Nonoperating Revenue	6,010
Depreciation Expense	17,757
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	359,575
Decrease in Prepaid Items	<u>13,739,503</u>
Total Adjustments	<u>14,122,845</u>
Net Cash Provided by Operating Activities	<u><u>\$19,480,958</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

At December 31, 2015, the Port Authority had outstanding liabilities of \$459,156 for certain capital assets.

During 2015, the Port Authority received capital contributions of \$166,969.

See accompanying notes to the basic financial statements

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

The Lancaster Port Authority (the "Port Authority") was created on December 12, 2005 under the authority of Section 4582.21 et seq. of the Ohio Revised Code which provides that "a municipal corporation, a county or any combination thereof acting jointly, may create a port authority which shall be a body corporate and politic and have territorial limits coterminous with the territorial limits of the political subdivision(s) creating such port authority."

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

The financial statements are presented as of December 31, 2015 and for the year then ended and have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to local governments. The Governmental Accounting Standards Board (the "GASB") is the standard-setting body for establishing governmental accounting and financial reporting principles, which are primarily set forth in the GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification).

**A. Reporting Entity**

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

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

**B. Basis of Presentation**

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

**C. Measurement Focus**

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

**D. Basis of Accounting**

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

**E. Cash and Cash Equivalents**

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

**F. Prepaid Gas Supply**

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

**G. Derivative Instruments**

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

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

**H. Capital Assets and Depreciation**

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

Property, plant and equipment acquired is stated at cost (or estimated historical cost), including architectural and engineering fees where applicable. Donated capital assets are recorded at fair market value at the date received.

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

<u>Description</u>	<u>Estimated Lives (in years)</u>
Buildings	40
Improvements	20
Infrastructure	75

**I. Estimates**

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

**J. Net Position**

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net position invested in capital assets consists of capital assets, net of accumulated depreciation on those assets.

**K. Operating Revenues and Expenses**

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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**NOTE 2 – DEFICIT NET POSITION**

The accumulated deficit at December 31, 2015 of \$85,569,779 is the result of recording the prepaid gas supply at the present value of the future shipments and the related bonds payable at outstanding par value. At the end of the contract period, the net result will be zero.

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

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

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

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

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

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

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

**Deposits**

Custodial credit risk is the risk that in the event of bank failure, the government's deposits may not be returned. Protection of Port Authority cash and deposits is provided by the federal deposit insurance corporation as well as qualified securities pledged by the institution holding the assets. Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the Port Authority places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

At year end the carrying amount of the Port Authority's deposits was \$6,839,641 and the bank balance was \$6,847,839. Federal depository insurance covered \$460,050 of the bank balance, and \$6,387,789 was uninsured. Of the remaining uninsured bank balance, the Port Authority was exposed to custodial risk as follows:

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Port Authority's name	<u><u>\$6,387,789</u></u>

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

**NOTE 4 - CAPITAL ASSETS**

Summary by category at December 31, 2015:

***Historical Cost:***

Class	December 31, 2014	Additions	Deletions	December 31, 2015
<b><i>Capital assets not being depreciated:</i></b>				
Land	\$106,200	\$35,796	\$0	\$141,996
Construction in Progress	0	1,393,539	0	1,393,539
Subtotal	106,200	1,429,335	0	1,535,535
<b><i>Capital assets being depreciated:</i></b>				
Buildings	95,745	166,969	(166,969)	95,745
Improvements	136,841	0	0	136,841
Infrastructure	614,326	0	0	614,326
Subtotal	846,912	166,969	(166,969)	846,912
Total Cost	\$953,112	\$1,596,304	(\$166,969)	\$2,382,447

***Accumulated Depreciation:***

Class	December 31, 2014	Additions	Deletions	December 31, 2015
Buildings	(\$18,140)	(\$2,724)	\$0	(\$20,864)
Improvements	(22,765)	(6,842)	0	(29,607)
Infrastructure	(50,869)	(8,191)	0	(59,060)
Total Depreciation	(\$91,774)	(\$17,757)	\$0	(\$109,531)
<b><i>Net Value:</i></b>	<b>\$861,338</b>			<b>\$2,272,916</b>

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

**Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015**

**NOTE 5 - LONG-TERM DEBT**

Long-term debt obligations of the Port Authority at December 31, 2015 were as follows:

		Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015	Amount Due Within One Year
<b>Long-Term Debt</b>						
Variable Rate						
Revenue Refunding Bonds	2014	\$321,685,000	\$0	(\$12,825,000)	\$308,860,000	\$13,545,000
Discount		(1,518,498)	0	303,699	(1,214,799)	0
Total Long-Term Debt		<u>\$320,166,502</u>	<u>\$0</u>	<u>(\$12,521,301)</u>	<u>\$307,645,201</u>	<u>\$13,545,000</u>

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

The Port Authority entered into an interest rate swap with Royal Bank of Canada in connection with the Series 2014, Gas Supply Revenue Refunding Bonds. Under the swap agreement, the Port Authority pays a fixed amount and receives a variable payment computed at a rate equal to that of the bonds. As of December 31, 2015, aggregated debt service requirements of the Port Authority's debt (variable rate) and net payments on a hedging derivative instrument are as follows. These amounts assume that current interest rates on the variable-rate bonds and the current reference rates of the hedging derivative instruments will remain the same for their term. As these rates vary, interest payments on variable-rate bonds and the net payments on the hedging derivative instrument will vary. See Note 7 for information on the derivative instrument.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

**NOTE 5 - LONG-TERM DEBT (Continued)**

Years	Principal	Interest	Hedging Derivative	Total
			Instruments, Net	
2016	\$13,545,000	\$2,510,537	\$3,029,131	\$19,084,668
2017	14,135,000	2,387,186	2,894,854	19,417,040
2018	14,585,000	2,266,252	2,748,204	19,599,456
2019	266,595,000	1,262,472	1,542,698	269,400,170
Totals	<u>\$308,860,000</u>	<u>\$8,426,447</u>	<u>\$10,214,887</u>	<u>\$327,501,334</u>

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

The Port Authority has entered into long-term gas purchase and supply contracts for which prepayments have been made and an amount remaining of \$213,252,127 is reflected in both current and noncurrent asset categories at December 31, 2015. Long-term sales agreements also exist with the City to take delivery of the natural gas over a period continuing through 2038. The sales price to the City for these contracts is at specified index prices less a discount. Swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

**NOTE 7 - DERIVATIVE INSTRUMENTS**

**Composition of Derivative Instruments**

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2015, classified by type, are as follows:

	Notional Amount	Fair Value	Counterparty Credit Rating
Positive Cash Flow Hedge:			
Pay-variable, receive fixed commodity swap	47,795,321 mmbtu	\$ 251,404,639	A+/A-1
Negative Cash Flow Hedge:			
Pay-fixed, receive variable interest rate swap	\$ 321,685,000	\$ (9,587,145)	AA-/A-1+

All fair values are classified as derivative instruments on the Statement of Net Position. The increase in fair values of these derivatives instruments was \$63,424,231 for 2015. As these commodity and interest rate swaps are considered hedging derivatives instruments, the change in fair value is reflected within deferred outflows and inflows on the Statement of Net Position. The positive and negative fair values of the commodity and interest rate swaps were not netted. The fair values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established interest rate indexes. The fair values of the interest rate swaps are based on the LIBOR index at year end and discounted using established interest rate indexes.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

**Objective and Terms of Hedging Derivative Instruments**

The following table displays the objective and terms of the Port Authority hedging derivative instruments outstanding at December 31, 2015:

<u>Type</u>	<u>Objective</u>	<u>Maturity Date</u>	<u>Terms</u>
Pay-fixed receive variable interest rate swap	The Port Authority entered into an interest rate swap in connection with its Series 2014 Bonds, effective on or before the date of the initial issuance of such bonds, to correlate the fixed payments it receives under the related Commodity Swap with its variable rate debt service payment on these bonds.	2019	The interest rate swap extends to the date of the final maturity of these bonds and requires payments based on a notional amount equal to the scheduled outstanding principal amount of these bonds. Under the interest rate swap, the Port Authority pays the counterparty a fixed payment of 1.84701%, on the notional amount and receives a variable payment equal to the rate actually borne by the Series 2014 Bonds, which is based upon the LIBOR index.
Pay-variable, receive fixed commodity swap	The Port Authority has entered into a fixed to floating commodity swap in connection with the natural gas prepay transaction. The purpose of the Commodity Swap is to correlate gas sales revenues the Port Authority receives based on floating natural gas indices to a fixed stream of payments necessary to make debt service payments on its Bonds.	2038	The commodity swap extends to the date of the final maturity of the related Natural Gas Supply Agreements. The commodity swap requires monthly payments based on a notional quantity of natural gas that corresponds to the volume of natural gas sold pursuant to the related Natural Gas Supply Agreements. Payments under the commodity swap are based on nationally published gas indices at the gas delivery points.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

**Commodity Swap Risks**

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

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

**Interest Rate Swap Risks**

**Termination Risk:** The Interest Rate Swaps terminate in the event of a “triggering event” under the related Prepaid Natural Gas Sales Agreements, in the event of the Port Authority or counterparty nonperformance, and in connection with other specified events. Under the Interest Rate Swaps, no termination payment, in the amount of the fair value or otherwise, is to be made by either party in connection with an early termination of such swap.

**Credit risk:** The Interest Rate Swaps terminate in the event of a "triggering event" under the related Prepaid Natural Gas Sales Agreements, in the event of the Port Authority or Swap Counterparty nonperformance, and in connection with other specified events. The only amounts due upon termination of the Interest Rate Swaps would be previously accrued but unpaid amounts. If the Swap Counterparty is rated below "A1" by Moody’s Investors Service, Inc., the Swap Counterparty is permitted to post collateral or post an alternative security arrangement within twenty-five Local Business Days of such downgrade. The Swap Counterparty must provide the Port Authority adequate assurances of Swap Counterparty’s ability to continue performing under all Transactions, which adequate assurances must be satisfactory to the Port Authority.

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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

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

**NOTE 8 - RISK MANAGEMENT**

The Port Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to agents and others; and natural disasters. The Port Authority carries commercial insurance, subject to certain limits and deductibles, to reduce the financial impact for claims arising from such matters. Claims have not exceeded this commercial coverage in any of the three preceding years.

**NOTE 9 - RELATED PARTY TRANSACTIONS**

All of the Port Authority's natural gas sales have been to the City of Lancaster (the "City"). At December 31, 2015, accounts receivable due from the City was \$364,103. For 2015, the Port Authority reported gas sales to the City in the amount of \$5,666,848.

**NOTE 10 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS**

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

**Major Suppliers**

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

**LANCASTER PORT AUTHORITY,  
LANCASTER, OHIO**

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***Notes to the Basic Financial Statements  
For the Year Ended December 31, 2015***

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**NOTE 10 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS (Continued)**

**Current Economic Conditions**

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

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Lancaster Port Authority (the Authority), a component unit of the City of Lancaster, Ohio, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 28, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2015-001 that we consider to be a significant deficiency.

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**Compliance and Other Matters**

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

**Authority's Response to Finding**

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

**Purpose of this Report**

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

*Clark, Schaefer, Hackett & Co.*

Springfield, Ohio  
June 28, 2016

## Section I – Summary of Auditors’ Results

### Financial Statements

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

## Section II – Financial Statement Findings

### **2015-001: Significant Deficiency – Segregation of Duties**

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

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

## Section III – Summary Schedule of Prior Audit Findings

**2014-001: Significant Deficiency –** The segregation of financial duties is important to adequately protect the Authority’s assets and ensure accurate financial reporting.

*Status: No Change - see current year finding 2015-001*



At Clark Schaefer Hackett, we are the sum of our individuals. Each team member's training, experience and drive is well-suited to each client's needs and goals. We are committed to providing insightful and flexible service – from efficient compliance to sophisticated consulting – to help each client prosper today and plan for future success.



# Dave Yost • Auditor of State

LANCASTER PORT AUTHORITY

FAIRFIELD COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 20, 2016