LANCASTER PORT AUTHORITY
FAIRFIELD COUNTY
REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 2020

Millhuff-Stang
CERTIFIED PUBLIC ACCOUNTANT

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OHIO AUDITOR OF STATE
KEITH FABER

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Columbus, Ohio 43215
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Board of Directors
Lancaster Port Authority
104 East Main Street
Lancaster, Ohio 43130

We have reviewed the *Independent Auditor's Report* of Lancaster Port Authority, Fairfield County, prepared by Millhuff-Stang, CPA, Inc., for the audit period January 1, 2020 through December 31, 2020. 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. Lancaster Port Authority is responsible for compliance with these laws and regulations.

Keith Faber
Auditor of State
Columbus, Ohio

July 02, 2021

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Lancaster, Ohio
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Millhuff-Stang
CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Lancaster Port Authority, (the Port Authority), a component unit of the City of Lancaster, Ohio as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port 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.

Auditor's 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 auditor's 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 Port Authority'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 Port Authority'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Lancaster Port Authority, as of December 31, 2020, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Port Authority. 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 that the management's discussion and analysis, on pages 3 through 7 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 11, 2021 on our consideration of the Port Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Port Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Authority's internal control over financial reporting and compliance.

Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio

June 11, 2021

Management's Discussion and Analysis
For the Year Ended December 31, 2020 ***Unaudited***

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, 2020. 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 2020 are as follows:

- Assets decreased from $445,950,247 to $429,594,468 due to consuming prepaid gas.

- Liabilities decreased due to paying principal on mortgage revenue bonds.

- The Port Authority accepted $2,332,026 of assets net of liabilities of the Lancaster Area Community Improvement Corporation.

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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Management's Discussion and Analysis
For the Year Ended December 31, 2020 ***Unaudited***

FINANCIAL ANALYSIS OF THE PORT AUTHORITY

The following tables represent the Port Authority's condensed financial information for 2020 and 2019 derived from the statement of net position and the statement of revenues, expenses, and changes in net position.

	2020	2019
Current Assets	$19,271,810	$18,412,213
Other Assets	407,625,123	424,721,106
Capital Assets, Net	2,697,535	2,816,928
Total Assets	429,594,468	445,950,247
Deferred Outflows of Resources	9,560	0
Current Liabilities	6,240,086	9,158,685
Long-term Debt Outstanding	338,326,163	340,971,730
Total Liabilities	344,566,249	350,130,415
Deferred Inflows of Resources	186,323,268	186,819,864
Net Position:		
Investment in Capital Assets	2,697,535	2,816,928
Unrestricted	(103,983,024)	(93,816,960)
Total Net Position	($101,285,489)	($91,000,032)

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Changes in Net Position – The following table shows the changes in net position for 2020 compared to 2019:

	2020	2019
Revenues		
Gas Supply	$3,445,424	$4,951,667
Other Operating Revenue	139,129	19,437
Total revenues	3,584,553	4,971,104
Expenses		
Personal Services	67,407	0
Supplies and Materials - Cost of Gas Sold	2,382,655	2,047,178
Contractual Services	303,669	2,625,034
Depreciation	75,001	74,900
Total expenses	2,828,732	4,747,112
Operating Income	755,821	223,992
Nonoperating Revenues/(Expenses)		
Intergovernmental Grant	0	21,000
Investment Earnings	32,897	81,660
Interest and Fiscal Charges	(13,442,916)	(10,301,451)
Gain on Derivative Instruments	0	0
Other Nonoperating Revenue	60,764	26,068
Gain/(Loss) on Sale of Capital Asset	(24,049)	34,730
Special Item - Transfer of Assets and Liabilities	2,332,026	0
Total Change in Net Position	(10,285,457)	(9,914,001)
Beginning Net Position	(91,000,032)	(81,086,031)
Ending Net Position	($101,285,489)	($91,000,032)

Net Position decreased by $10,285,457. This is the result of decreased revenues and increased interest expense on debt.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020, the Port Authority had $2,697,535 net of accumulated depreciation invested in capital assets. The following table shows 2020 and 2019 balances:

	2020	2019	Increase (Decrease)
Land	$58,615	$103,007	($44,392)
Buildings and Improvements	2,462,292	2,462,292	0
Equipment	15,012	15,012	0
Infrastructure	614,326	614,326	0
Less: Accumulated Depreciation	(452,710)	(377,709)	(75,001)
Totals	$2,697,535	$2,816,928	($119,393)

The Port Authority sold a parcel of land in 2020.

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

Debt

The following table summarizes the Port Authority's debt outstanding as of December 31, 2020 and 2019:

	2020	2019
Revenue Bonds Payable	$338,326,163	$340,971,730
Totals	$338,326,163	$340,971,730

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

ECONOMIC FACTORS

The Lancaster Port Authority's (LPA) primary focus is on job creation facilitated by land acquisitions, land development, industrial buildings, and marketing. Additionally, plans are progressing to develop workforce housing by creating package development in Lancaster's federal designated opportunity zones. Ohio has not been proactive in encouraging investment in the opportunity zones and the LPA intends to be a leader to drive investment in these areas with the goal to improve neighborhoods that are not seeing active new development and to provide affordable housing for those working but struggling due to rapidly increasing rents that is a national and not just a local problem..

The LPA's 50,400 square foot "spec" industrial building is currently leased in a lease to purchase five-year contract. The LPA completed the plans to do the office buildout for the building and work is expected to begin mid-June with tenant occupancy July 1, 2021.The LPA sold two lots on Carbon Court late in 2020, the building at 1337 Carbon Court, and a lot on Wallace Court. Additionally, the trans-load facility was sold in January 2021. The LPA desires to dissolve its' investment in rail activity.

Effective October 31, 2020, The Lancaster Area Community Improvement Corporation dissolved and transferred all cash and land assets to the Lancaster Port Authority. This transfer aligned with LPA's mission and allows' a streamlined and rapid response when attracting or expanding industry as well as consolidating the City's economic development processes.

Prior to March 31, 2020, the LPA executive director served on a volunteer basis. Effective April 1, 2020 the LPA has made the executive director a paid part-time position to focus on the goals of the board and to better move their vision forward. Additionally, the City of Lancaster utilizes the Port Authority for its sole economic development efforts and recognizes the need to "privatize and streamline" economic development processes into one agency.

REQUESTS FOR INFORMATION

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

Statement of Net Position
December 31, 2020

ASSETS	
Current assets:	
Cash and Cash Equivalents	$3,504,790
Accounts Receivable	352,385
Prepaid Gas Supply - Current	15,414,635
Total Current Assets	19,271,810
Noncurrent Assets:	
Prepaid Gas Supply - Long Term	212,545,453
Land Held for Resale	1,845,511
Fair Value of Derivative Instruments	186,323,268
Restricted Assets:	
Cash and cash equivalents	6,910,891
Capital Assets	
Capital Assets Not Being Depreciated	58,615
Capital Assets Being Depreciated, net	2,638,920
Total Capital Assets	2,697,535
Total Noncurrent Assets	410,322,658
Total Assets	429,594,468
DEFERRED OUTFLOWS OF RESOURCES	
Pension	9,560
LIABILITIES	
Current Liabilities:	
Intergovernmental Payable	1,821
Accrued Interest	6,230,453
Unearned Revenue	7,812
Bond Payable-current	1,225,000
Total Current Liabilities	7,465,086
Noncurrent Liabilities:	
Bond Payable-long term	337,101,163
Total Liabilities	344,566,249
DEFERRED INFLOWS OF RESOURCES	
Deferred Inflow from Derivative Instruments	186,323,268
NET POSITION	
Investment in Capital Assets	2,697,535
Unrestricted	(103,983,024)
Total Net Position	($101,285,489)

See accompanying notes to the basic financial statements

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2020

Operating Revenues:	
Gas Supply	$3,445,424
Other Operating Revenue	139,129
Total Operating Revenues	3,584,553
Operating Expenses:	
Personal Services	67,407
Materials and Supplies - cost of gas sold	2,382,655
Contractual services	303,669
Depreciation	75,001
Total Operating Expenses	2,828,732
Operating Income	755,821
Nonoperating Revenues (Expenses):	
Investment Earnings	32,897
Interest and Fiscal Charges	(13,442,916)
Other Nonoperating Revenues	60,764
Loss on Sale of Capital Assets	(24,049)
Total Nonoperating Revenues (Expenses)	(13,373,304)
Income Before Special Item	(12,617,483)
Special Item - Transfer of Assets and Liabilities	2,332,026
Change in Net Position	(10,285,457)
Net Position at Beginning of Year	(91,000,032)
Net Position at End of Year	($101,285,489)

See accompanying notes to the basic financial statements

Statement of Cash Flows
For the Year Ended December 31, 2020

Cash Flows from Operating Activities:	
Cash Received from Customers	$3,598,278
Cash Received from Swap Providers	13,914,368
Cash Payments for Personal Services	(75,146)
Cash Payments for Goods and Services	(303,669)
Other Miscellaneous Cash Receipts	60,764
Net Cash Provided by Operating Activities	17,194,595
Cash Flows from Noncapital Financing Activities:	
Principal Payment on Revenue Bond Payable	(1,205,000)
Loan Repayment from Primary Government	350,000
Proceeds from Sale of Land	72,135
Transfer of Funds from Community Improvement Corporation	494,353
Interest Paid on Debt	(17,811,715)
Net Cash Used by Noncapital Financing Activities	(18,100,227)
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Sale of Capital Assets	88,608
Net Cash Provided by Capital and Related Financing Activities	88,608
Cash Flows from Investing Activities:	
Receipts of Interest Earnings	32,897
Net Cash Provided by Investing Activities	32,897
Net Decrease in Cash and Cash Equivalents	(784,127)
Cash and Cash Equivalents at Beginning of Year	11,199,808
Cash and Cash Equivalents at End of Year	$10,415,681
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	$755,821
Adjustments to Reconcile Operating Income to Net Cash Used by Operating Activities:	
Miscellaneous Nonoperating Revenue	60,764
Depreciation Expense	75,001
Changes in Assets and Liabilities:	
Decrease in Accounts Receivable	13,751
Decrease in Prepaid Items	16,297,023
Increase in Deferred Outflows	(9,560)
Increase in Intergovernmental Payable	1,821
Decrease in Unearned Revenue	(26)
Total Adjustments	16,438,774
Net Cash Used by Operating Activities	$17,194,595

Schedule of Noncash Investing Activities:

During 2020, the Port Authority received land net of a prepaid lease of $1,837,327 from the Lancaster Area Community Improvement Corporation.

See accompanying notes to the basic financial statements

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus

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

D. Basis of Accounting

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

E. Cash and Cash Equivalents

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

F. Prepaid Gas Supply

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

G. Derivative Instruments

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

Derivative instruments are utilized by the Port Authority to manage market risk and reduce its exposure resulting from fluctuations in prices of natural gas in order to meet debt service requirements. These instruments include commodity swap agreements which convert index-priced natural gas revenues to fixed prices for servicing outstanding debt obligations.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Capital Assets and Depreciation

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

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

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

Description	Estimated Lives (in years)
Buildings	40
Improvements	20
Infrastructure	75
Equipment	10

I. Estimates

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

J. Net Position

Net position represents the difference between assets and deferred outflows and liabilities and deferred inflows. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

K. 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. 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.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The deferred outflows of resources related to the pension plan is explained in Notes 8 and 9.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For the Port Authority, deferred inflows of resources are for hedging derivatives.

N. Fair Value

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

O. Assets Held for Resale

Original land available for sale is stated at its appraised value, which approximates market value at the time of donation. Subsequent land purchases and costs to prepare the land for sale are stated at cost. As land is sold, an allocation of cost for those acres sold is charged to operations.

NOTE 2 – DEFICIT NET POSITION

The accumulated deficit at December 31, 2020 of $101,285,489 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;
- 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 3 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits

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

At year end the carrying amount of the Port Authority's deposits was $10,415,681 and the bank balance was $10,415,681. Federal depository insurance covered $500,000 of the bank balance, and $9,915,681 was uninsured. Of the remaining uninsured bank balance, the Port Authority was exposed to custodial risk as follows:

	Balance
Uninsured and collateralized with securities held by the pledging institution's trust department not in the Port Authority's name	$9,915,681

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

NOTE 4 - CAPITAL ASSETS

Summary by category at December 31, 2020:

Historical Cost:

Class	December 31, 2019	Additions	Deletions	December 31, 2020
Capital assets not being depreciated:				
Land	$103,007	$0	($44,392)	$58,615
Subtotal	103,007	0	(44,392)	58,615
Capital assets being depreciated:				
Buildings	2,325,451	0	0	2,325,451
Improvements	136,841	0	0	136,841
Equipment	15,012	0	0	15,012
Infrastructure	614,326	0	0	614,326
Subtotal	3,091,630	0	0	3,091,630
Total Cost	$3,194,637	$0	($44,392)	$3,150,245

Accumulated Depreciation:

Class	December 31, 2019	Additions	Deletions	December 31, 2020
Buildings	($226,860)	($58,467)	$0	($285,327)
Improvements	(56,975)	(6,842)	0	(63,817)
Equipment	(2,050)	(1,501)	0	(3,551)
Infrastructure	(91,824)	(8,191)	0	(100,015)
Total Depreciation	($377,709)	($75,001)	$0	($452,710)
Net Value:	$2,816,928			$2,697,535

NOTE 5 - LONG-TERM DEBT

Long-term debt obligations of the Port Authority at December 31, 2020 were as follows:

	Balance December 31, 2019	Additions	Deletions	Balance December 31, 2020	Amount Due Within One Year
Long-Term Debt					
5% Revenue Refunding Bonds 2019	$298,475,000	$0	($1,205,000)	$297,270,000	$1,225,000
Premium	42,496,730	0	(1,440,567)	41,056,163	0
Total Long-Term Debt	$340,971,730	$0	($2,645,567)	$338,326,163	$1,225,000

In May, 2019, the Port Authority issued $300,065,000 of gas supply revenue refunding bonds in a current refunding to redeem $259,320,000 of gas supply revenue refunding bonds issued in July, 2014 as well as provide for the prepayment of the extension of the original prepaid gas agreement through the year 2049. The 2019 gas supply revenue refunding bonds carry an interest rate of 5.00% and are scheduled to mature on August 1, 2049, with the bonds maturing after February 1, 2025 being subject to a mandatory tender as of that date.

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

	Mortgage Revenue Bonds		
Years	Principal	Interest	Total
2021	$1,225,000	$14,848,875	$16,073,875
2022	1,285,000	14,786,875	16,071,875
2023	1,355,000	14,721,750	16,076,750
2024	1,460,000	14,653,250	16,113,250
2025	5,345,000	14,579,250	19,924,250
2026-2030	49,365,000	66,225,000	115,590,000
2031-2035	53,295,000	53,326,125	106,621,125
2036-2040	58,550,000	39,550,375	98,100,375
2041-2045	66,215,000	24,072,375	90,287,375
2046-2049	59,175,000	6,755,375	65,930,375
Totals	$297,270,000	$263,519,250	$560,789,250

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 $227,960,088 is reflected in both current and noncurrent asset categories at December 31, 2020. Long-term sales agreements also exist with the City to take delivery of the natural gas over a period continuing through 2049. The sales price to the City for these contracts is at specified index prices less a discount. Swap agreements are used to convert these variable index prices to fixed prices sufficient to meet debt service requirements.

NOTE 7 - DERIVATIVE INSTRUMENTS

Composition of Derivative Instruments

The fair value balances and notional amounts of derivative instruments outstanding as of December 31, 2020, classified by type, are as follows:

	Notional Amount	Fair Value	Counterparty Credit Rating
Positive Cash Flow Hedge:			
Pay-variable, receive fixed commodity swap	59,087,169 mmbtu	$ 186,323,268	A-

All fair values are classified as derivative instruments on the Statement of Net Position. The decrease in fair values of these derivatives instruments was $496,596 for 2020. As these commodity swaps are considered hedging derivatives instruments, the change in fair value is reflected within deferred inflows on the Statement of Net Position. The fair values of the commodity swaps are based on forward prices from established indexes for the applicable region and discounted using established interest rate indexes. The fair value of the derivatives is calculated based on current market rates (Level 2 inputs).

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

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, 2020:

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

Commodity Swap Risks

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS

Net Pension Liability

The net pension liability for OPERS was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port Authority's proportion of the net pension liability cannot be measured, nor reported because there were no employees and therefore no contributions during 2019.

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 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 Port Authority’s obligation for this liability to annually required payments. The Port Authority cannot control benefit terms or the manner in which pensions are financed; however, the Port 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.

Any liability for the contractually-required pension contribution outstanding at the end of the year is included in *intergovernmental payable*.

Plan Description – Ohio Public Employees Retirement System (OPERS)

Plan Description - Port 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. Port 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.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

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.

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 Comprehensive Annual Financial Report referenced above for additional information, including requirements for reduced and unreduced benefits):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** 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: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 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:** 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:** 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 3.00% 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 3.00%.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

Benefits in the Combined Plan consist of both an age-and-service formula benefit (defined benefit) and a defined contribution element. The defined benefit element is calculated on the basis of age, FAS, and years of service. Eligibility regarding age and years of service in the Combined Plan is the same as the Traditional Pension Plan. The benefit formula for the defined benefit component of the plan for State and Local members in transition Groups A and B applies a factor of 1.00% to the member's FAS for the first 30 years of service.

A factor of 1.25% is applied to years of service in excess of 30. The benefit formula for transition Group C applies a factor of 1.0% to the member's FAS and the first 35 years of service and a factor of 1.25% is applied to years in excess of 35. Persons retiring before age 65 with less than 30 years of service credit receive a percentage reduction in benefit. The defined contribution portion of the benefit is based on accumulated member contributions plus or minus any investment gains or losses on those contributions. Members retiring under the Combined Plan receive a 3.00% COLA adjustment on the defined benefit portion of their benefit.

Defined contribution plan benefits are established in the plan documents, which may be amended by the OPERS's Board of Trustees. Member-Directed Plan and Combined Plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the Combined Plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. The amount available for defined contribution benefits in the Member-Directed Plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. For additional information, see the Plan Statement in the OPERS Comprehensive Annual Financial Report.

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

	State and Local
2020 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2020 Actual Contribution Rates	
Employer:	
Pension	14.0 %
Post-employment Health Care Benefits	0.0
Total Employer	14.0 %
Employee	10.0 %

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Port Authority's contractually required contribution was $9,560 for 2020. Of this amount, $1,821 is reported as an intergovernmental payable.

Deferred Outflows of Resources Related to Pensions

At December 31, 2020, the Port Authority reported $9,560 as deferred outflows of resources related to pension resulting from Port Authority contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2021.

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. The total pension liability in the December 31, 2019 and December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	December 31, 2019
Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	1.4 percent simple through 2020. 2.15 percent simple, thereafter
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

	December 31, 2018
Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA (Pre 1/7/13 retirees)	3 percent simple
COLA or Ad Hoc COLA (Post 1/7/13 retirees)	3 percent simple through 2018. 2.15 percent simple, thereafter
Investment Rate of Return	7.2 percent
Actuarial Cost Method	Individual Entry Age

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

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. 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 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 2019, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. 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 was 17.2% for 2019.

NOTE 8 – DEFINED BENEFIT PENSION PLANS (Continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees 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 table below displays the Board-approved asset allocation policy for 2019 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	25.00 %	1.83 %
Domestic Equities	19.00	5.75
Real Estate	10.00	5.20
Private Equity	12.00	10.70
International Equities	21.00	7.66
Other investments	13.00	4.98
Total	100.00 %	5.61 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 percent. 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 statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 9 - DEFINED BENEFIT OPEB PLANS

Net OPEB Liability

The net OPEB liability for OPERS was measured as of December 31, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Port Authority's proportion of the net OPEB liability cannot be measured, nor reported because there were no employees and therefore no contributions during 2019.

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 obligation to sacrifice resources for OPEB is a present obligation because it was created as a result of employment exchanges that already have occurred.

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

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 Port Authority's obligation for this liability to annually required payments. The Port Authority cannot control benefit terms or the manner in which OPEB are financed; however, the Port 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.

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 20 or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. 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' Comprehensive Annual Financial Report referenced below for additional information.

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

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, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2020, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are 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. For 2020, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and Combined Plan. 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 2020 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Port Authority's contractually required contribution was $0 for 2020.

Deferred Outflows of Resources Related to OPEB

At December 31, 2020, the Port Authority reported $0 as deferred outflows of resources related to OPEB resulting from Port Authority contributions subsequent to the measurement date which will be recognized as a reduction of the net OPEB liability in 2021.

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.

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

Projections of health care costs 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 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, 2018, rolled forward to the measurement date of December 31, 2019. 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	3.16 percent
Prior Measurement date	3.96 percent
Investment Rate of Return:	
Current measurement date	6.00 percent
Prior Measurement date	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.75 percent
Prior Measurement date	3.71 percent
Health Care Cost Trend Rate:	
Current measurement date	10.5 percent initial, 3.5 percent ultimate in 2030
Prior Measurement date	7.25 percent, initial 3.25 percent, ultimate in 2029
Actuarial Cost Method	Individual Entry Age Normal

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. 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.

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

During 2019, 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 was 19.7 percent for 2019.

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 2019 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	36.00 %	1.53 %
Domestic Equities	21.00	5.75
Real Estate Investment Trust	6.00	5.69
International Equities	23.00	7.66
Other investments	14.00	4.90
Total	100.00 %	4.55 %

Discount Rate A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. 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 6.00 percent and a municipal bond rate of 2.75 percent.

Notes to the Basic Financial Statements
For the Year Ended December 31, 2020

NOTE 9 - DEFINED BENEFIT OPEB PLANS (Continued)

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.

Changes between Measurement Date and Reporting Date

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and pre-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for pre-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are not reflected in the current year financial statements but are expected to decrease the associated OPEB liability.

NOTE 10 - 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 11 - RELATED PARTY TRANSACTIONS

All of the Port Authority's natural gas sales have been to the City of Lancaster (the "City"). At December 31, 2020, accounts receivable due from the City was $352,385. For 2020, the Port Authority reported gas sales to the City in the amount of $3,445,424. During 2020, the City repaid a 0%, short-term loan receivable of $350,000 to the Port Authority.

NOTE 12 – COVID-19

The United States and the State of Ohio declared a state of emergency in March 2020 due to COVID-19 pandemic. The financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Port Authority. In addition, the impact of the Port Authority's future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

NOTE 13 – SPECIAL ITEM - TRANSFER OF OPERATIONS

Under an agreement between the Port Authority and the Lancaster Area Community Improvement Corporation (the “Corporation”), the Port Authority agreed to accept the transfer of the Corporation’s assets and liabilities. On October 30, 2020, the Corporation transferred the assets and liabilities which resulted in the Port Authority recognizing the following assets, liabilities and net position:

Transferred Assets	
Cash and Cash Equivalents	$494,353
Land Held for Resale	1,845,511
Total Assets	2,339,864
Transferred Liabilities	
Unearned Revenue	7,838
Total Liabilities	7,838
Net Position of Transferred Operations:	
Unrestricted	2,332,026
Total Net Position	$2,332,026

NOTE 14 - SIGNIFICANT ESTIMATES AND CONCENTRATIONS

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

Major Suppliers

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

Current Economic Conditions

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

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

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*

Independent Auditor's Report

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

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 business-type activities of Lancaster Port Authority, (the Port Authority) a component unit of the City of Lancaster, Ohio as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Port Authority's basic financial statements, and have issued our report thereon dated June 11, 2021. We noted the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the Port Authority.

Internal Control Over Financial Reporting

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

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Compliance and Other Matters

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

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Millhuff-Stang, CPA, Inc.
Chillicothe, Ohio

June 11, 2021

Lancaster Port Authority
Lancaster, Ohio
Schedule of Prior Audit Findings
For the Year Ended December 31, 2020

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; ***Explain***
Finding 2019-001	Significant Deficiency – Segregation of Duties	Yes	

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OHIO AUDITOR OF STATE
KEITH FABER

LANCASTER PORT AUTHORITY

FAIRFIELD COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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

Certified for Release 7/15/2021

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