



OHIO AUDITOR OF STATE
KEITH FABER



**LAKE COUNTY OHIO PORT AND ECONOMIC DEVELOPMENT AUTHORITY
LAKE COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

Lake County Ohio Port and Economic Development Authority
Lake County
One Victoria Place, Suite 165A
Painesville, Ohio 44077

To the Board of Trustees:

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of the Lake County Ohio Port and Economic Development Authority, Lake County, Ohio, a component unit of Lake County, (the Port Authority), as of and for the year ended December 31, 2018, 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 preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the 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 to the extent needed to opine on the effectiveness of the Port Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Lake County Ohio Port and Economic Development Authority, Lake County, Ohio, as of December 31, 2018, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2019, on our consideration of the Port Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Port Authority's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, stylized 'K' and 'F'.

Keith Faber
Auditor of State

Columbus, Ohio

September 24, 2019

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Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2018

Unaudited

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

Financial Highlights

Key financial highlights for 2018 are as follows:

- The Authority's total net position decreased by \$258,573, from a restated balance of \$11,312,004 to \$11,053,431.
- During 2018, the Authority had overall operating income of \$6,693. The principle operating fund had operating income of \$111,750 while the Willoughby Lost Nation Municipal Airport (the "Airport") had an operating loss of \$105,057.
- The Authority was able to make its annual principal and interest payments on its outstanding Ohio Water Development Authority loan in the amount of \$67,894 and \$1,710, respectively.
- For 2018, the Authority adopted GASB Statement 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," which significantly revises accounting for costs and liabilities related to other postemployment benefits (OPEB), resulting in the restatement of beginning net position from the previously reported \$11,566,654, to \$11,312,004.
- The Authority's total net pension liability decreased to \$232,026 from \$330,228 and the OPEB liability increased to \$281,255, from \$256,604, a combined decrease of \$73,551. For more information on these liabilities see Notes 8 and 9 to the basic financial statements.

Using this Annual Financial Report

This report consists of a series of financial statements. The *Statement of Net Position and Statement of Revenues, Expenses and Changes in Fund Net Position* provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

A question typically asked about the Authority's finances is "How did we do financially during 2018?" The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority and its activities in a way that helps answer this question. These statements include *all assets, deferred outflows of resources, liabilities and deferred inflows of resources* using the *accrual basis of accounting* which is similar to the accounting used by most private-sector companies. The Authority charges a fee to customers to help it cover part of the services it provides. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net position* and *changes in that net position*. This change in net position is important because it tells the reader that, for the Authority as a whole, the *financial position* of the Authority has improved or diminished. The reader will need to consider other non-financial factors (e.g.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2018

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changes in the condition of capital assets, FAA regulations, weather, etc.) in order to assess the overall health of the Authority.

The Authority as a Whole

Recall that the Statement of Net Position provides the perspective of the Authority as a whole. Table 1 provides a summary of the Authority's net position for 2018, compared to 2017:

(Table 1) - Net Position

	Business-Type Activities		
	2018	(Restated) 2017	Change
Assets			
Assets, excluding Capital Assets, Net	\$1,660,901	\$1,418,664	\$242,237
Capital Assets, Net of Depreciation	<u>11,039,015</u>	<u>11,366,625</u>	<u>(327,610)</u>
Total Assets	<u>12,699,916</u>	<u>12,785,289</u>	<u>(85,373)</u>
Deferred Outflows of Resources			
Pension - OPERS	72,716	139,035	(66,319)
OPEB - OPERS	<u>22,639</u>	<u>1,954</u>	<u>20,685</u>
Total	<u>95,355</u>	<u>140,989</u>	<u>(45,634)</u>
Liabilities			
Current and Other Liabilities	594,514	697,037	(102,523)
Long-Term Liabilities:			
Due Within One Year	46,057	79,494	(33,437)
Due in More than One Year:			
Net Pension Liability	232,026	330,228	(98,202)
Net OPEB Liability	281,255	256,604	24,651
Other Due in More than One Year	<u>126,600</u>	<u>172,657</u>	<u>(46,057)</u>
Total Liabilities	<u>1,280,452</u>	<u>1,536,020</u>	<u>(255,568)</u>
Deferred Inflows of Resources			
Pension - OPERS	85,836	78,254	7,582
OPEB - OPERS	20,952	0	20,952
Gain on Sale of Land	<u>354,600</u>	<u>0</u>	<u>354,600</u>
Total	<u>461,388</u>	<u>78,254</u>	<u>383,134</u>
Net Position			
Net Investment in Capital Assets	10,866,358	11,114,474	(248,116)
Restricted	21,851	49,654	(27,803)
Unrestricted	<u>165,222</u>	<u>147,876</u>	<u>17,346</u>
Total Net Position	<u>\$11,053,431</u>	<u>\$11,312,004</u>	<u>(\$258,573)</u>

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

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

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

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

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

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

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

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

As a result of implementing GASB 75, the Authority is reporting a net OPEB liability and deferred inflows/outflows of resources related to OPEB on the accrual basis of accounting.

Total assets decreased \$85,373 during 2018. The majority of this decrease was the result of the Authority's sale of a piece of a parcel of land at the Lost Nation Airport and the demolition of the building at 609 Bank Street, which had a book value of \$374,722. Capital assets decreased \$327,610 from the prior year due to the demolition of the Bank Street office building.

Total liabilities decreased by \$255,568 during 2018. Long-term liabilities decreased due to the Authority making its scheduled payment on the outstanding Ohio Water Development Authority loan and the decrease in net pension liability. Other liabilities decreased due to decreases in accounts payable, contracts payable and liabilities related to the South Shore lease agreement.

In total, net position of the Authority decreased by \$258,573, which can be attributed mostly to the aforementioned decrease in capital assets.

Table 2 shows the revenues, expenses and the changes in net position for the year ended December 31, 2018 compared to the year ended December 31, 2017.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Management's Discussion and Analysis
For the Year Ended December 31, 2018

Unaudited

(Table 2)
Changes in Net Position

	Business-Type Activities		
	2018	2017	Change
<i>Operating Revenues</i>			
Operating Grants	\$116,410	\$53,122	\$63,288
Lease & Program Income	318,639	548,588	(229,949)
Contributions and Donations	715,335	596,443	118,892
Charges for Services & Rentals	64,350	62,608	1,742
Other Operating Revenues	159,425	26,367	133,058
<i>Total Operating Revenues</i>	1,374,159	1,287,128	87,031
<i>Operating Expenses</i>			
Personal Services	528,989	457,223	(71,766)
Contractual Services	136,166	535,278	399,112
Materials and Supplies	41,115	35,240	(5,875)
Overhead, Rent & Utilities	461,636	169,574	(292,062)
Travel & Training	31,146	27,580	(3,566)
Other Operating Expenses	50,320	66,044	15,724
Depreciation	118,094	122,406	4,312
<i>Total Operating Expenses</i>	1,367,466	1,413,345	45,879
Operating Income/(Loss)	6,693	(126,217)	132,910
<i>Non-Operating Revenues (Expenses)</i>			
Capital Grants	269,707	427,907	(158,200)
Grants Related Expenses	(285,356)	(274,722)	(10,634)
Interest Income	9,385	5,523	3,862
Interest and Fiscal Charges	(3,880)	(5,947)	2,067
Gain on Sale of Capital Assets	15,000	0	15,000
Other non-Operating Revenue	99,106	6,828	92,278
Other non-Operating Expenses	(473,828)	0	(473,828)
<i>Total Non-Operating Revenues (Expenses):</i>	(369,866)	159,589	(529,455)
<i>Income (Loss) Before Contributions & Transfers</i>	(363,173)	33,372	(396,545)
Capital Contributions	104,600	0	104,600
Transfers In	115,750	52,943	62,807
Transfers Out	(115,750)	(52,943)	(62,807)
Special Item - Gain on Acquisition of Property	0	436,300	(436,300)
Change in Net Position	(258,573)	469,672	(728,245)
Net Position Beginning of Year - Restated	11,312,004	N/A	
Net Position End of Year	\$11,053,431	\$11,312,004	(\$258,573)

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Lake County, Ohio

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The information necessary to restate the 2017 beginning balances and the 2017 OPEB expense amounts for the effects of the initial implementation of GASB 75 is not available. Therefore, 2017 functional expenses still include OPEB expense of \$1,954 computed under GASB 45. GASB 45 required recognizing pension expense equal to the contractually required contributions to the plan. Under GASB 75, OPEB expense represents additional amounts earned, adjusted by deferred inflows/outflows. The contractually required contribution is no longer a component of OPEB expense. Under GASB 75, the 2018 statements report OPEB expense of \$24,917. Consequently, in order to compare 2018 total operating expenses to 2017, the following adjustments are needed:

Total 2018 Operating Expenses under GASB 75	\$1,367,466
OPEB Expense under GASB 75	<u>(24,917)</u>
Adjusted 2018 Operating Expenses	1,342,549
Total 2017 Operating Expenses under GASB 45	<u>1,413,345</u>
Decrease in Operating Expenses not Related to OPEB	<u><u>(70,796)</u></u>

Operating revenues increased by \$87,031 due primarily to an increase in finance programs income received from the previous year. Operating expenses decreased by \$45,879 from the prior year due to a decrease in contractual services. The Authority's total net position decreased \$258,573 from the prior year.

Capital Assets

The largest portion of the Authority's net position is its net investment in capital assets. The Authority uses these capital assets to provide services to the businesses and public using the Authority. Table 3 shows 2018 balances compared with 2017.

(Table 3)
Capital Assets at December 31 (Net of Depreciation)

	Business-Type Activities		
	2018	2017	Change
Land	\$8,764,026	\$8,892,446	(\$128,420)
Construction in Progress	173,058	0	173,058
Buildings	1,273,817	1,628,089	(354,272)
Improvements Other Than Buildings	572,757	600,359	(27,602)
Furniture, Equipment and Vehicles	255,357	245,731	9,626
Totals	<u>\$ 11,039,015</u>	<u>\$ 11,366,625</u>	<u>\$ (327,610)</u>

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Management's Discussion and Analysis
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Unaudited

The \$327,610 decrease in capital assets was due to current year additions of \$323,956 being less than current year depreciation of \$118,094 and net deletions of \$533,472. During 2018, the Authority sold a parcel of land valued at \$158,750 for \$533,350, or a gain of \$374,600. The Authority received \$20,000 in 2018 on this transaction and will receive quarterly payments until June 30, 2028 until the entire note receivable is paid in full.

During 2012, the Authority acquired land parcels and related properties located on Bank Street with the understanding that some of the property would need substantial work and remediation. Remediation was completed in 2016 through grants and Port funds and the assets were capitalized at a substantial gain of nearly \$600,000 for the Authority. During 2018, an office building located at 609 Bank Street was razed, and to properly record the removal of this asset, the Authority recognized a loss of \$375,722, the book value at the time of disposal. The loss was reported as an other non-operating expense of the Authority. Note 10 of the basic financial statements provides a more detailed look at the capital asset activity during 2018.

Debt

The Authority's outstanding long-term obligations, excluding the net pension and OPEB liabilities, are included in the following table:

(Table 4)
Outstanding Debt, at December 31

	Amount Outstanding 12/31/2018	Amount Outstanding 12/31/2017	Increase (Decrease)
<i>Port Authority:</i>			
OWDA Loan	\$34,457	\$102,351	(\$67,894)
Copier Lease - Meritech	13,200	19,800	(6,600)
<i>Lost Nation Airport:</i>			
Loan Payable to City of Willoughby	125,000	130,000	(5,000)
<i>Total Long-Term Obligations</i>	\$ 172,657	\$ 252,151	\$ (79,494)

In 2013, the Authority finalized a Brownfield loan agreement with the Ohio Water Development Authority in the amount of \$329,618 in order to help pay its cost associated with the revitalization and cleanup of the Bank street property. The loan will mature in 2019 and have an interest rate of 2.0 percent.

In 2014, the Authority assumed responsibility for all payments related to an outstanding revenue bond related to the transfer of the Lost Nation Airport. The revenue bond will mature in 2032 and is reported as a loan payable to the City of Willoughby.

In 2016, the Authority entered into a capital lease for copiers and related equipment for \$33,000. This lease will be paid back over 5 years and mature in 2020.

Additional information concerning the Authority's long-term obligations can be found in Note 7 to the basic financial statements.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Management's Discussion and Analysis
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Factors Expected to Impact the Authority's Future Financial Position or Results of Operations

South Shore – On June 2nd 2014, the Authority acquired the former County garage in the Village of North Perry from the Lake County Commissioners with the sale of \$1,965,000 in bonds. The Bonds were purchased by the Village of North Perry and the property was subsequently leased to South Shore Controls for 5 years maturing May 31st 2019.

Lost Nation Airport - On October 15, 2014, the Authority acquired, through transfer, the Willoughby Lost Nation Municipal Airport from the City of Willoughby in exchange for certain consideration, including an agreement to pay off an existing revenue bond of \$150,000. The agreement also contains a \$750,000 contingent liability if the Airport meets certain operating surpluses over consecutive years. Those liability obligations remain in place in 2018.

Lost Nation Airport accepts grants from the Federal Aviation Administration (FAA) Airport Improvement Program. One was taken in 2015 to conduct a Master Plan. A Master Plan Study will provide strong direction for the immediate and future development, improvement, and upgrades at the Airport. The completed plan will give the Authority insight and assistance in determining the best uses of the land and identifying obstructions to the active runways to be removed for safety enhancements. Finally, the Master Plan will provide a basis for on-going commitments and participation in the funding of eligible improvements by the Federal Aviation Administration and the State of Ohio Office of Aviation which are both a valuable source of funding for the Airport. Project completion is expected in early 2019.

The Airport was awarded a grant in 2017 for improvements to the ramp and terminal apron areas. The pavement rehabilitation consisted of full depth repairs, crack filling, sealing and marking. The project was completed in the summer of 2018.

The Airport was awarded a grant from the Federal Aviation Administration (FAA) in 2018 to design and layout a 10' fence to replace an existing 6' fence located in the City of Mentor, Ohio and a small portion of fence in Willoughby, Ohio for the purpose of a wildlife deterrent. The anticipation is that the FAA will then award a grant in 2019 for the fence construction. The Airport also received a grant from the Ohio Department of Transportation (ODOT), Office of Aviation in 2018 for removal of obstructions (trees) in the runway 10 approach path. An additional grant will be sought after in 2019 for the removal of obstructions (trees and poles) in the approach paths for runways 5, 23 and 28 in 2019.

Bank Street –The property cleanup was completed in December 2014 using the \$1,200,000 Ohio Jobs Ready Site Grant, with part of the grant used to make further improvements to the property. These improvements have made the remaining facility more attractive to potential tenants and easier to lease. The final release letter from the Ohio EPA was received in September of 2016. As of December 31, 2018, all remaining buildings are leased and the obsolete office building has been razed.

Lake Health Wellness Campus - In 2016, the Authority provided conduit financing to help structure and finance an 85,000 sq. ft. Health and Wellness Center, developed and leased by Lake Mentor Properties, LLC, an affiliate of Boldt Development, and to be sub leased and operated by Lake Hospital System, Inc. The facility will provide many important community services including primary and secondary physician care, urgent care, imaging, sports medicine, rehabilitation, fitness center, track, pool and aquatic center, doctors' offices and a full service pharmacy. The facility was fully operational by the end of 2018.

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Lake County Young Men's Christian Association (YMCA) Project - In 2017, the Authority provided conduit financing to help structure and finance a new YMCA facility in Willoughby, Ohio to replace the existing facility, now over 50 years old. The new, approximately 38,000 square foot building is being constructed in collaboration with the Willoughby Eastlake City School District and the City of Willoughby. When complete, the new campus will consist of a new High School, Senior Center and YMCA with a shared use agreement to share the aquatic Center and Fieldhouse. The project is on schedule to be completed in late summer of 2019.

Tapestry Wickliffe, LLC Project - In 2017, the Authority provided conduit financing for the purchase, construction, reconstruction, equipping and improving a site in Wickliffe, Ohio. The renovations include a 167 unit Senior Assisted Living and Memory Care facility. The project was initiated by LaSalle Development Group Ltd. and will be operated by Tapestry Wickliffe LLC. The project also includes physical rehabilitation facilities, salon, spa, commercial kitchen, offices and other support facilities. The renovation was completed in late fall 2018.

De Nora Tech Inc. Project - In 2017, the Authority provided conduit financing for the construction of a new 110,000 square foot manufacturing facility in Mentor, Ohio. To structure the transaction, the Authority issued lease revenue Bonds to De Nora Tech. The lessee will be Capannoni USA, LLC; a real estate holding company for De Nora Tech. The project will also include an electrical substation with emergency generation, water and waste water facilities, and other improvements. When fully operational the site will provide an additional 130 jobs to Lake County.

Contacting the Authority's Finance Department

This financial report is designed to provide our citizens, taxpayers, Authority users, and all interested parties with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Timothy Cahill, Director of Public Finance and Controller of the Lake County Ohio Port & Economic Development Authority, 1 Victoria Place, Suite 265A, Painesville, Ohio 44077.

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LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY
Statement of Net Position
 December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Port Authority	Lost Nation Airport	Total
Assets:			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 601,574	\$ 65,337	\$ 666,911
Net Receivables:			
Accounts	11,793	66,014	77,807
Intergovernmental Receivable	15,000	-	15,000
Prepaid Items	5,699	4,714	10,413
<i>Total Current Assets</i>	<u>634,066</u>	<u>136,065</u>	<u>770,131</u>
<i>Noncurrent Assets:</i>			
Land	1,587,400	7,176,626	8,764,026
Buildings	1,197,807	76,010	1,273,817
Improvements	-	572,757	572,757
Furniture, Fixtures & Equipment	13,200	242,157	255,357
Construction in Progress	173,058	-	173,058
Note Receivable	-	513,350	513,350
Net Pension Asset - OPERS Combined Plan	11,189	-	11,189
<i>Total Noncurrent Assets</i>	<u>2,982,654</u>	<u>8,580,900</u>	<u>11,563,554</u>
<i>Restricted and Other Assets:</i>			
<i>Cash and Cash Equivalents:</i>			
Restricted for South Shore Debt	97,278	-	97,278
Restricted for South Shore Rental/Security Deposits	19,030	-	19,030
Restricted for South Shore Improvements	78,248	-	78,248
Restricted for AGRI Business Loan program	150,000	-	150,000
Restricted for Capital Grants	-	21,675	21,675
<i>Total Restricted and Other Assets</i>	<u>344,556</u>	<u>21,675</u>	<u>366,231</u>
<i>Total Assets</i>	<u>3,961,276</u>	<u>8,738,640</u>	<u>12,699,916</u>
Deferred Outflows of Resources			
Pension	72,716	-	72,716
OPEB	22,639	-	22,639
<i>Total Deferred Outflows of Resources</i>	<u>95,355</u>	<u>-</u>	<u>95,355</u>
Liabilities:			
<i>Current Liabilities:</i>			
Accounts Payable	41,738	21,324	63,062
Contracts Payable	24,639	-	24,639
Intergovernmental Payable	4,909	519	5,428
Accrued Interest Payable	345	-	345
Other Payables	2,754	1,301	4,055
Vacation Benefits Payable	9,589	2,917	12,506
Unearned Revenue	-	9,999	9,999
OWDA Loans Payable - Current	34,457	-	34,457
Capital Lease Payable - Current	6,600	-	6,600
Loan Payable to City of Willoughby - Current	-	5,000	5,000
<i>Total Current Liabilities</i>	<u>125,031</u>	<u>41,060</u>	<u>166,091</u>
<i>Other Liabilities (Including Amounts Relating to Restricted Assets):</i>			
South Shore Rent Payment	45,566	-	45,566
South Shore Rent Escrow	19,030	-	19,030
South Shore Security Deposit	7,520	-	7,520
South Shore Lease Improvements	78,248	-	78,248
South Shore Tax Payments	44,016	-	44,016
AGRI Business Loan Program	150,000	-	150,000
Taxes Collected on Behalf of Tenants	-	130,100	130,100
<i>Total Other Liabilities</i>	<u>344,380</u>	<u>130,100</u>	<u>474,480</u>
<i>Long-Term Liabilities (net of current portion)</i>			
Capital Lease Payable	6,600	-	6,600
Loan Payable to City of Willoughby	-	120,000	120,000
Net Pension Liability	232,026	-	232,026
Net OPEB Liability	281,255	-	281,255
<i>Total Long-Term Liabilities</i>	<u>519,881</u>	<u>120,000</u>	<u>639,881</u>
<i>Total Liabilities</i>	<u>989,292</u>	<u>291,160</u>	<u>1,280,452</u>
Deferred Inflows of Resources			
Pension	85,836	-	85,836
OPEB	20,952	-	20,952
Gain on Sale of Land	-	354,600	354,600
<i>Total Deferred Inflows of Resources</i>	<u>106,788</u>	<u>354,600</u>	<u>461,388</u>
Net Position			
Net Investment in Capital Assets	2,923,808	7,942,550	10,866,358
Restricted for South Shore Lease	176	-	176
Restricted for Capital Improvements	-	21,675	21,675
Unrestricted	36,567	128,655	165,222
<i>Total Net Position</i>	<u>\$ 2,960,551</u>	<u>\$ 8,092,880</u>	<u>\$ 11,053,431</u>

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Port Authority	Lost Nation Airport	Total
Operating Revenues			
Operating Grants	\$ 105,000	\$ 11,410	\$ 116,410
Lease Income	101,287	133,832	235,119
Finance Programs Income	83,520	-	83,520
Intergovernmental - County Contributions	715,335	-	715,335
Charges for Services	-	29,150	29,150
Hangar Rentals	-	35,200	35,200
Other Operating Revenues	148,566	10,859	159,425
<i>Total Operating Revenues</i>	<u>1,153,708</u>	<u>220,451</u>	<u>1,374,159</u>
Operating Expenses			
Personal Services	484,479	44,510	528,989
Contractual Services	34,367	101,799	136,166
Materials & Supplies	10,858	30,257	41,115
Overhead, Rent & Utilities	373,319	88,317	461,636
Training & Travel	31,146	-	31,146
Other Operating Expenses	50,320	-	50,320
Depreciation Expense	57,469	60,625	118,094
<i>Total Operating Expenses</i>	<u>1,041,958</u>	<u>325,508</u>	<u>1,367,466</u>
<i>Operating Income (Loss)</i>	<u>111,750</u>	<u>(105,057)</u>	<u>6,693</u>
Non-Operating Revenues (Expenses)			
Capital Grants	109,374	160,333	269,707
Grant Related Expenses	(125,023)	(160,333)	(285,356)
Interest Income	9,385	-	9,385
Gain on Sale of Capital Assets	-	15,000	15,000
Interest and Fiscal Charges	(1,030)	(2,850)	(3,880)
Other Non-Operating Revenues	-	99,106	99,106
Other Non-Operating Expenses	(374,722)	(99,106)	(473,828)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(382,016)</u>	<u>12,150</u>	<u>(369,866)</u>
<i>Income (Loss) Before Contributions & Transfers</i>	<u>(270,266)</u>	<u>(92,907)</u>	<u>(363,173)</u>
Capital Contributions	104,600	-	104,600
Transfers In	-	115,750	115,750
Transfers Out	(115,750)	-	(115,750)
<i>Change in Net Position</i>	<u>(281,416)</u>	<u>22,843</u>	<u>(258,573)</u>
<i>Net Position Beginning of Year - Restated (See Note 3)</i>	<u>3,241,967</u>	<u>8,070,037</u>	<u>11,312,004</u>
<i>Net Position End of Year</i>	<u>\$ 2,960,551</u>	<u>\$ 8,092,880</u>	<u>\$ 11,053,431</u>

The notes to the basic financial statements are an integral part of this statement.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Port Authority	Lost Nation Airport	Total
Cash Flows From Operating Activities:			
Cash Received from Customers & Users	\$ 183,557	\$ 186,470	\$ 370,027
Cash Received from Operating Grants	90,000	11,410	101,410
Cash Received from Contributions & Donations	715,335	-	715,335
Other Operating Revenues	148,566	25,859	174,425
Cash Paid to Suppliers	(12,716)	(29,508)	(42,224)
Cash Paid to Employees	(492,729)	(41,467)	(534,196)
Cash Paid for Contractual Services	(125,402)	(147,485)	(272,887)
Cash Paid for Overhead, Rent & Utilities	(364,702)	(72,219)	(436,921)
Cash Paid for Other Operating Expenses	(82,846)	-	(82,846)
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>59,063</u>	<u>(66,940)</u>	<u>(7,877)</u>
Cash Flows From Non-Capital Financing Activities			
Interest Income	9,385	-	9,385
Taxes Collected on Behalf of Tenants	130,250	145,375	275,625
Taxes Paid on Behalf of Tenants	(44,006)	(176,742)	(220,748)
Other Non-Operating Revenues	-	99,106	99,106
Other Non-Operating Expenses	-	(99,106)	(99,106)
Transfers In	-	53,063	53,063
Transfers Out	(115,750)	-	(115,750)
<i>Net Cash Provided By (Used for) Non-Capital Financing Activities</i>	<u>(20,121)</u>	<u>21,696</u>	<u>1,575</u>
Cash Flows From Capital and Related Financing Activities			
Cash Received from Capital Grants	109,374	160,333	269,707
AGRI Loan Disbursements	(25,000)	-	(25,000)
AGRI Loan Repayments	35,000	-	35,000
Payment for Capital Acquisitions	(158,877)	(46,298)	(205,175)
Payment for Capital Grant Related Expenses	(109,466)	(160,333)	(269,799)
Principal Paid on Debt	(124,494)	(5,000)	(129,494)
Interest Paid on Debt	(17,590)	(2,850)	(20,440)
<i>Net Cash Provided by (Used For) Capital and Related Financing Activities</i>	<u>(291,053)</u>	<u>(54,148)</u>	<u>(345,201)</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(252,111)	(99,392)	(351,503)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,198,241</u>	<u>186,404</u>	<u>1,384,645</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 946,130</u>	<u>\$ 87,012</u>	<u>\$ 1,033,142</u>

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2018

	Business-Type Activities - Enterprise Funds		
	Port Authority	Lost Nation Airport	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$ 111,750	\$ (105,057)	\$ 6,693
Adjustments:			
Depreciation	57,469	60,625	118,094
(Increase) Decrease in Assets & Deferred Outflows:			
Accounts Receivable	(1,250)	(1,712)	(2,962)
Due from Other Governments	(15,000)	-	(15,000)
Note Receivable	-	15,000	15,000
Prepaid Items	(192)	1,640	1,448
Deferred Outflows of Resources - Pension	66,319	-	66,319
Deferred Outflows of Resources - OPEB	(20,685)	-	(20,685)
Increase (Decrease) in Liabilities & Deferred Inflows:			
Accounts Payable	24,686	13,082	37,768
Contracts Payable	(108,292)	(40,228)	(148,520)
Retainage Payable	-	(4,470)	(4,470)
Due to Other Governments	1,062	126	1,188
Unearned Revenue	-	(10,000)	(10,000)
Vacation Benefits Payable	1,260	2,917	4,177
Credit Card Payable	(1,858)	1,137	(721)
Deferred Inflows of Resources - Pension	7,582	-	7,582
Deferred Inflows of Resources - OPEB	20,952	-	20,952
Net Pension Liability - OPERS	(109,391)	-	(109,391)
Net OPEB Liability - OPERS	24,651	-	24,651
<i>Total Adjustments</i>	<u>(52,687)</u>	<u>38,117</u>	<u>(14,570)</u>
<i>Net Cash Provided By (Used For) Operating Activities</i>	<u>\$ 59,063</u>	<u>\$ (66,940)</u>	<u>\$ (7,877)</u>

The notes to the basic financial statements are an integral part of this statement.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

Note 1 - Description of the Lake County Ohio Port & Economic Development Authority & Reporting Entity

A. The Authority

The Lake County Ohio Port & Economic Development Authority, Lake County, (the “Authority”) was established by the Board of the Lake County Commissioners in 2007 as a body corporate and politic for the purpose of promoting projects that will provide for the creation of jobs and employment opportunities and improve the economic welfare of the people residing in Lake County, as well as to encourage projects to enhance, foster, aid, provide or promote transportation, economic development, housing, recreation, education, governmental operations, culture or research within the territory served by the Authority.

The Authority is governed by a nine member Board of Directors, each of whom is appointed by the Board of County Commissioners. The Board of County Commissioners can remove any appointed member of the Board of Directors and can also dissolve the Authority upon adoption of a resolution. As a result, the Port Authority is reflected as a component unit of Lake County.

B. Reporting Entity

The Authority has been defined in accordance with GASB Statement No. 14, “The Financial Reporting Entity”, and as amended by GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units” and GASB Statement No. 61, “The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34”. The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the Authority are not misleading. The primary government consists of all departments, boards and agencies that are not legally separate from the Authority.

Component units are legally separate organizations for which a primary government is financially accountable. The Authority is financially accountable for an organization if the primary government appoints a voting majority of the organization's governing board and (1) the Authority is able to significantly influence the programs or services performed or provided by the organization; or (2) the Authority is legally entitled to or can otherwise access the organization's resources; or (3) the Authority is legally obligated or has otherwise assumed the responsibility to finance deficits of or provide financial support to the organization; or (4) the Authority is obligated for the debt of the organization. Under the criteria specified in Statement No. 14, the Authority has no component units. Accordingly, the accompanying financial statements include only the accounts and transactions of the Authority. The Authority is, however, considered to be a component unit of Lake County (“the County”) by virtue of the fact the Authority’s Board of Trustees is appointed by the County and the Authority imposes a financial burden on the County. These conclusions regarding the financial reporting entity are based on the concept of financial accountability. The Authority is not financially accountable for any other organization.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

Note 2 - Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The more significant of the Authority's accounting policies are described below.

A. Basis of Presentation

The Authority's basic financial statements consist of a statement of net position, statement of revenues expenses and changes in net position, and a statement of cash flows. The Authority reports its operations in two enterprise funds. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

GASB Statement No. 34 requires the following, which collectively make up the Authority's basic financial statements:

Management's Discussion and Analysis
Basic Financial Statements:
 Statement of Net Position
 Statement of Revenues, Expenses, and Changes in Net Position
 Statement of Cash Flows
Notes to the Basic Financial Statements
Required Supplementary Information

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary, however the Authority only has proprietary funds.

Proprietary Fund Type Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position, and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The Port Authority and Lost Nation Airport funds are the Authority's only enterprise funds.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

Port Authority Fund – The Port Authority fund accounts for the all of the day to day activity, grants, lending programs and economic development activity relating to the Authority that does not involve the Lost Nation Airport.

Lost Nation Airport Fund – The Lost Nation Airport fund accounts for all of the operating and capital activity of the Lost Nation Municipal Airport.

C. Measurement Focus and Basis of Accounting

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

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The accrual basis of accounting is used for reporting purposes. Revenues are recognized when they are earned, and expenses are recognized when they are incurred. Unbilled service charges are recognized as revenue at year end.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before eligibility requirements are met are also recorded as a deferred inflow of resources. On the accrual basis of accounting, expenses are recognized at the time they are incurred.

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. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. For the Authority, deferred outflows of resources are reported on the statement of net position for pension and OPEB. The deferred outflows of resources related to pension and OPEB are 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. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the Authority, deferred inflows of resources were reported for pension and OPEB. Deferred inflows of resources related to pension, OPEB and gain on sale of land are reported on the statement of net position (see Notes 8 and 9).

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

D. Cash and Cash Equivalents

The Authority maintains interest bearing depository accounts. All funds of the Authority are maintained in these accounts. These interest bearing depository accounts are presented in the statement of net position as “Cash and Cash Equivalents”.

During 2018, investments were limited to STAR Ohio.

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

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

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general operating fund during 2018 was \$9,385.

E. Restricted Assets and Related Liabilities

Bond indentures and other lease agreements require portions of debt proceeds as well as other resources of the Authority to be set aside for various purposes. These amounts are reported as restricted assets along with the unspent proceeds of the Authority’s debt obligations. The liabilities that relate to the restricted assets are included in other liabilities payable from restricted assets in the Statement of Net Position.

F. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for the cost of additions and retirements during the year. The capital assets received from the City of Willoughby during the transfer of operations of the Lost Nation Airport were recorded at the carrying amount reported by the City at the time of transfer. Donated capital assets are recorded at their fair market values as of the date received. The Authority maintains a capitalization threshold of \$5,000.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. All reported capital assets except land and construction in progress are depreciated. Depreciation in the enterprise fund is computed using the straight-line basis over the following estimated useful lives:

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

<u>Estimated Lives</u>	<u>Description</u>
30 years	Buildings
25 years	Improvements other than Buildings
5 - 10 years	Vehicles
3 - 10 years	Furniture and Equipment

G. Net Position

Net Position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. 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. Net position is reported as restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for debt service represents monies set aside for the repayment of debt.

The Authority applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

H. Grants and Intergovernmental Revenues

State and Federal grants and assistance awards made on the basis of entitlement periods are recorded as intergovernmental receivables and revenues when entitlement occurs. State and Federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when all applicable eligibility requirements have been met and the resources are available.

I. Contributions of Capital

Contributions of capital arise from outside contributions of capital assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

J. Vacation Benefits Payable

Vacation benefits are accrued as a liability as benefits are earned if the employees' right to receive compensation are attributable to services already rendered and it is probable that the employer will compensate the employees through paid time off or some other means.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from primary activities. For the Authority, these revenues are charges for services, rentals, leases and miscellaneous reimbursements. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the Authority. Revenues and expenses which do not meet these definitions are reported as non-operating.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

L. Lease Accounting

The Authority classifies leases at the inception of each lease in accordance with Governmental Accounting Standards Board (GASB) Statement No. 62, except for leases that are not recognized for accounting purposes under Interpretation No. 2 of the GASB, Disclosure of Conduit Debt Obligations, because they secure the repayment of conduit debt.

M. Operating Lease Income

For operating leases that have scheduled rent increases in the minimum rentals specified under the leases, the Authority recognizes rental income on a straight-line basis over the lease term.

N. Financing Fee Income

Fees associated with economic development loan programs and conduit debt transactions are recognized in operating income as they are received. Such fees will only be paid while the related debt is outstanding, therefore, they are subject to the risk that the debt will be repaid in advance of scheduled maturity.

O. 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, and pension expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB systems. 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 systems report investments at fair value.

P. 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.

Q. Fair Market Value

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

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

Note 3 – Change in Accounting Principles & Restatement of Prior Year Net Position

A. *Change in Accounting Principles*

For 2018, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, “Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”, Statement No. 81, “Irrevocable Split-Interest Agreements”, Statement No. 85, “Omnibus 2017”, and GASB Statement No. 86, “Certain Debt Extinguishment Issues”.

GASB Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. The implementation of GASB Statement 75 resulted in an overall restatement of beginning net position, as previously reported (see below).

GASB Statement No. 81 aims to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts-or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements-in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. The implementation of GASB Statement No. 81 did not have an effect on the financial statements of the Authority.

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

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

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

Notes to the Basic Financial Statements
December 31, 2018

B. Restatement of Prior Year Net Position

	<u>Authority</u>
Net Position at December 31, 2017, as Previously Reported	\$11,566,654
<i>Adjustments:</i>	
Net Other Postemployment Benefit (OPEB) Liability	(256,604)
Payments Subsequent to Measurement Date	<u>1,954</u>
Restated Net Position at December 31, 2017	<u><u>\$11,312,004</u></u>

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

Note 4 – Deposits and Investments

State statutes classify monies held by the Authority into three categories.

Active monies are public deposits necessary to meet the demands on the treasury. Such monies must be maintained either as cash by the Authority, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Authority has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of the Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. 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;

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2. 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;
 3. Written repurchase agreements in the securities listed above;
 4. Bonds and other obligations of the State of Ohio or Ohio local governments;
 5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
 6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations.
 7. The State Treasurer's investment pool (STAR Ohio); and
 8. Commercial paper and bankers acceptances if trading requirements have been met.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the Authority, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

According to State law, public depositories must give security for all public funds on deposit. These institutions may either specifically collateralize individual accounts in lieu of amounts insured by FDIC, or may pledge a pool of government securities valued at least 105 percent of the total value of public monies on deposit at the institution. Repurchase agreements must be secured by the specific government securities upon which the repurchase agreements are based. These securities must be obligations of or guaranteed by the United States and mature or be redeemable within 5 years of the date of the related repurchase agreement. State law does not require security for public deposits and investments to be maintained in the Authority's name. During 2018, the Authority invested in STAR Ohio.

Deposits with Financial Institutions

At December 31, 2018, the carrying amount of all Authority deposits was \$662,763 and the bank balance of all Authority deposits was \$736,179. \$460,787 of the bank balance was covered by Federal Deposit Insurance Corporation (FDIC) and \$275,392 was potentially exposed to custodial credit risk as discussed below.

Custodial credit risk is the risk that, in the event of bank failure, the Authority will not be able to recover deposits or collateral securities that are in possession of an outside party. The Authority has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by (1) eligible securities pledged to the Authority and deposited with a qualified trustee by the financial institution as security for repayment whose market value at all times shall be at least 105

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percent of the deposits being secured, or (2) participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution. OPCS requires the total market value of the securities pledged to be 102 percent of the deposits being secured or a rate set by the Treasurer of State. For 2018, the Authority's financial institutions were approved for a reduced collateral rate of 102 percent through the OPCS. Although all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the Authority to a successful claim by the FDIC.

Investments

As of December 31, 2018, the Authority had \$370,379 invested in STAR Ohio. The Authority's investments are valued using quoted market prices (level 1 inputs).

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

Credit Risk STAR Ohio carries a rating of AAAM by Standard & Poor's. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service. The Authority has no investment policy that addresses credit risk.

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

Concentration of Credit Risk The Authority places no limit on the amount it may invest in any one issuer. The Authority's investment in STAR Ohio represents 100 percent of total investments.

Reconciliation of Cash and Investments to the Statement of Net position

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the Statement of Net Position as of December 31, 2018:

<u>Cash and Investments per Note Disclosure:</u>		<u>Cash and Investments per Statement of Net Position:</u>	
Carrying amount of deposits	\$662,763	Port Authority	\$946,130
Investments	<u>370,379</u>	Lost Nation Airport	<u>87,012</u>
Total	<u><u>\$1,033,142</u></u>	Total	<u><u>\$1,033,142</u></u>

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Note 5 – Operating Lease Agreements

Authority as Lessor

559 Bank Street - In June of 2013, the Authority entered into a ten year operating lease agreement with Dalamer Industries, LLC for property and a building located on Bank Street in the City of Painesville. During 2017, this lease was transferred to Bank Street Development, LLC. The Authority also agreed to make certain improvements to the condition of property. The lease commenced on June 1, 2013 and is scheduled to expire May 1, 2023, with an option to purchase the property at any time during the lease at a price of \$580,000. If a purchase agreement is reached, Dalamer Industries will receive a credit against that purchase price in an amount equal to all of the payments it has already made under this agreement. Rental payments under the lease were \$2,960 per month for the first four months and \$4,900 per month for the remainder of the lease.

The future minimum rental payments to be received under this lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$58,800
2020	58,800
2021	58,800
2022	58,800
2023	24,500
<i>Total</i>	<u><u>\$259,700</u></u>

The Authority recorded \$58,800 of rental income (on a straight-line basis) under this lease for the year ended December 31, 2018.

South Shore Controls Project - In May of 2014, the Authority entered into a five year operating lease agreement with South Shore Controls, Inc. as part of the conduit debt transaction involving the Village of North Perry. The property and building are located on North Ridge Road in the Village of North Perry and the Authority agreed to make certain improvements to the condition of the property. The lease commenced on June 2, 2014 and is scheduled to expire May 31, 2019, with an option to purchase the property at any time during the lease at a price of \$1,660,000. If a purchase agreement is reached, South Shore Controls, Inc. will receive a credit against that purchase price for any security deposit credit and any rent escrow credit. Rental payments under the lease are \$90,240, or \$7,520 per month.

Each month, the \$7,520 rent payment is deposited into the Authority's South Shore Rental Payment account where \$346 is transferred to the South Shore Rent Escrow account and \$300 is transferred to the Authority's operating account as an administrative fee. The remainder of each payment, \$6,874, remains in the South Shore Rental Payment account to make scheduled principal and interest payments on behalf of the Village of North Perry. As of December 31, 2018 the Authority held \$64,596 in the South Shore Rental Payment account.

For the year ended December 31, 2018, the Authority recorded \$2,100 of rental/administrative fee income (on a straight-line basis) and held \$7,520 in the South Shore Rental/Security Deposits account.

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Evergreen Properties, LLC - In December of 2015, the Authority (Lost Nation Airport) renewed a five year operating lease agreement with Evergreen Properties, LLC for real property owned by the Airport. The lease commenced on January 1, 2016 and is scheduled to expire December 31, 2020, with an option to extend the term for 3 successive periods of five years each. Rental payments under the lease are \$600 per month or \$7,200 annually, for each year of the lease.

Classic Jet Center, LLC - In May of 2016, the Authority (Lost Nation Airport) amended and restated a five year operating lease agreement with Classic Jet Center, LLC for real property and facilities owned by the Airport. The lease commenced on May 1, 2016 and is scheduled to expire April 30, 2021, with an option to extend the term for 2 successive periods of five years each. Rental payments under the lease are \$2,933.34 per month or \$35,200 annually, for each year of the lease.

Storage Air, LLC - In May of 2016, the Authority (Lost Nation Airport) renewed a 28 month operating lease agreement with Storage Air, LLC for real property and facilities owned by the Airport and located at 1655 Lost Nation Road. The lease commenced on September 1, 2016 and expired December 31, 2018, with an option to extend the term for 5 successive periods of five years each. The lease has been renewed for 5 years until 12/1/2023. Rental payments under the lease are now \$955.78 per month or \$11,469 annually, for each year of the lease, a six percent increase from the prior lease period.

Turbine Storage, LLC - In May of 2016, the Authority (Lost Nation Airport) amended and restated a five year operating lease agreement with Turbine Storage, LLC for real property located at the Airport. The lease commenced on May 1, 2016 and is scheduled to expire April 30, 2021, with an option to extend the term for 2 successive periods of five years each. Rental payments under the lease are \$1,244.30 per month or \$14,932 annually, for years one through three of the lease. Rental payments for years four and five of the lease will be increased on January 1st of each year according to increases in the Consumer Price Index as calculated by the Consumer Price Index Calculator, not less than 1 percent.

600 Bank Street - In 2017, the Authority entered into a six and a half year operating lease agreement with Bank Street Development, LLC for property and a building located on Bank Street in the City of Painesville. The Authority previously made certain improvements to the condition of property. The lease commenced on February 1, 2017 and is scheduled to expire July 31, 2023, with an option to purchase the property at any time during the lease at a price of \$124,800. If a purchase agreement is reached, Bank Street Development, LLC will receive a credit against that purchase price in an amount equal to all of the payments it has already made under this agreement. Rental payments under the lease are \$1,600 per month for the remainder of the lease.

The future minimum rental payments to be received under this lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$19,200
2020	19,200
2021	19,200
2022	19,200
2023	9,600
<i>Total</i>	<u><u>\$86,400</u></u>

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The Authority recorded \$19,200 of rental income (on a straight-line basis) under this lease for the year ended December 31, 2018.

Rodewald Manufacturing - In 2018, the Authority entered into a ten year installment purchase agreement with Rodewald Manufacturing for property and a building located on South State Street in the City of Painesville. The Authority previously made certain improvements to the condition of property. The agreement commenced on October 1, 2018 and is scheduled to expire on September 30, 2028. The purchase price is \$500,000. Monthly payments will be made with payment amounts escalating at pre-determined intervals during the term of the agreement. Upon payment in full, the Authority will convey title to the purchaser or purchaser's nominee. The future minimum payments to be received under this agreement are as follows:

<u>Year Ending December 31;</u>	<u>Amount</u>
2019	\$36,000
2020	36,000
2021	40,000
2022	40,000
2023	50,000
2024 - 2028	<u>284,000</u>
Total	<u><u>\$486,000</u></u>

The Authority recorded \$14,000 of income (on a straight-line basis) under this agreement for the year ended December 31, 2018.

Authority as Lessee

Office Lease - The Authority leases office space at 1 Victoria Place in Painesville, Ohio from Painesville Commercial Properties, Inc. The current lease runs through June 30, 2019 and was extended for one year at the same rental rate. Rental expense, recognized on a straight-line basis, related to the Authority's lease at 1 Victoria Place totaled \$44,686 for the year ended December 31, 2018.

Note 6 – Conduit Debt

South Shore Controls Project

The Authority issued revenue bonds in the amount of \$1,965,000 to provide financial assistance to the Village of North Perry for the acquisition and construction of facilities deemed to be in the public interest and hereafter referred to as the South Shore Controls Project. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt produces additional revenues for the Authority through the South Shore Controls project lease agreement.

As of December 31, 2018, \$1,765,000 of the conduit debt revenue bonds remain outstanding.

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Lake Mentor Properties, LLC Project

The Authority issued revenue bonds in the amount of \$32,812,481 to provide financial assistance to the Lake Mentor Properties, LLC in order to construct a facility to be subleased to the Lake Hospital System for the acquisition and construction of facilities deemed to be in the public interest and hereafter referred to as the Lake Hospital System Project. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt produces additional revenues for the Authority through the Lake Mentor Properties, LLC project lease agreement.

As of December 31, 2018, \$31,840,359 of the conduit debt revenue bonds remain outstanding.

Lake County Young Men's Christian Association (YMCA) Project

The Authority issued revenue bonds in the amount of \$8,000,000 to provide financial assistance to the Lake County YMCA for the acquisition, improvement and furnishing of a two story indoor recreational facility of approximately 38,000 square feet, deemed to be in the public interest and hereafter referred to as the Lake County YMCA Project. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development.

As of December 31, 2018, \$1,745,856 of the conduit debt revenue bonds have been drawn and are outstanding.

Tapestry Wickliffe, LLC Project

The Authority issued lease revenue bonds in the amount of \$49,030,000 on October 31, 2017 to provide financial assistance to the Tapestry Wickliffe, LLC for the acquisition, construction, reconstruction, remodeling, equipping, furnishing and otherwise improving a senior assisted living and memory care facility in Wickliffe, Ohio, deemed to be in the public interest and hereafter referred to as the Tapestry Wickliffe LLC Project. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt produces additional revenues for the Authority through the project lease agreement.

As of December 31, 2018, \$49,030,000 of the conduit debt revenue bonds remain outstanding.

DeNora Tech Inc. Project

The Authority issued lease revenue bonds in the amount of \$17,000,000 on December 14, 2017 to provide financial assistance to the Capannoni USA, LLC, for the construction, equipping, furnishing and otherwise improving a new manufacturing facility in Mentor, Ohio, deemed to be in the public interest and hereafter referred to as the DeNora Tech Inc., Project. The Authority is not obligated in any manner for repayment of the bonds. Accordingly, a liability is not reported in the accompanying financial statements. However, the issuance of such conduit debt supports the Authority's purpose and drives local economic development. The aforementioned issuance of conduit debt produces additional revenues for the Authority through the Capannoni project lease agreement.

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As of December 31, 2018, \$15,000,000 of the conduit debt revenue bonds have been drawn and are outstanding.

Note 7 – Long-Term Obligations

Changes in the Authority’s long-term obligations during 2018 were as follows:

	(Restated) Outstanding 1/1/2018	Additions	Reductions	Outstanding 12/31/2018	Amount Due In One Year
Port Authority:					
OWDA Loan	\$102,351	\$0	\$67,894	\$34,457	\$34,457
Capital Lease	19,800	0	6,600	13,200	6,600
Total	122,151	0	74,494	47,657	41,057
Net Pension Liability (Asset):					
OPERS Traditional Plan	334,947	0	102,921	232,026	0
OPERS Combined Plan	(4,719)	(6,470)	0	(11,189)	0
Total Pension Liability	330,228	(6,470)	102,921	220,837	0
OPEB Liability	256,604	24,651	0	281,255	0
Total Port Authority	708,983	18,181	177,415	549,749	41,057
Lost Nation Airport:					
City of Willoughby Loan	130,000	0	5,000	125,000	5,000
Total Long-Term Obligations	\$ 838,983	\$ 18,181	\$ 182,415	\$ 674,749	\$ 46,057

During 2013, the Authority finalized a loan agreement with the Ohio Water Development Authority (OWDA) through its Brownfield Loan Fund program. The loan was secured by real property owned by the Authority and located in the City of Painesville, has an interest rate of 2.0 percent and is scheduled to mature in 2019.

The Authority pays obligations related to employee compensation from the Port Authority enterprise fund.

During 2015, as part of the agreement to acquire the Lost Nation Airport, the Authority agreed to pay to the City of Willoughby the annual required debt service payments on an existing revenue bond, until final maturity in 2032. If the City and Authority agree to refinance this bond at any time, then the Authority will make the new debt service payments.

During 2016, the Authority entered into a five year capital lease agreement with Meritech for one copier at \$6,600 annually over 5 years. The lease commenced January 1, 2016 and will expire December 31, 2020.

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The annual requirements to retire these obligations are as follows:

Year Ending December 31,	OWDA Loan		Loan Payable to the City of Willoughby		Capital Lease	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$34,457	\$345	\$5,000	\$2,750	\$6,600	\$450
2020	0	0	5,000	2,650	6,600	400
2021	0	0	5,000	2,550	0	0
2022	0	0	10,000	2,450	0	0
2023	0	0	10,000	2,250	0	0
2024-2028	0	0	50,000	8,225	0	0
2029-2032	0	0	40,000	2,538	0	0
<i>Total</i>	<u>\$34,457</u>	<u>\$345</u>	<u>\$125,000</u>	<u>\$23,413</u>	<u>\$13,200</u>	<u>\$850</u>

Note 8 - Defined Benefit Pension Plan

Net Pension Liability

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

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

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

The Authority's share of each plan's unfunded benefits is presented as a long-term net pension liability on the accrual basis of accounting.

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

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

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

Plan Description - Ohio Public Employees Retirement System (OPERS)

Plan Description – The Authority participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional 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 of the Authority may elect the member-directed plan and the combined plan, substantially all employees are in OPERS' traditional plan; therefore, the following disclosure focuses on the traditional pension plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional pension 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 CAFR referenced above for additional information):

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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 3 percent simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

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

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

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The Authority's contractual required contribution was \$38,671 for 2018.

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

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

	OPERS Traditional	OPERS Combined	OPERS Total
Proportion of the Net Pension Liability (Asset) Prior Measurement Date	0.00147500%	0.00847800%	
Proportion of the Net Pension Liability (Asset) Current Measurement Date	<u>0.00147900%</u>	<u>0.00821900%</u>	
Change in Proportionate Share	<u>0.00000400%</u>	<u>-0.00025900%</u>	
Proportionate Share of the Net Pension Liability (Asset)	\$232,026	(\$11,189)	\$220,837
Pension Expense	\$1,603	\$1,581	\$3,184

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

	OPERS Traditional	OPERS Combined	OPERS Total
Deferred Outflows of Resources			
Differences between expected and actual experience	\$237	\$0	\$237
Change of Assumptions	27,730	978	28,708
Change in proportionate share and difference between Authority contributions and proportionate share of contributions	370	4,730	5,100
Authority contributions subsequent to the measurement date	<u>35,904</u>	<u>2,767</u>	<u>38,671</u>
Total Deferred Outflows of Resources	<u>\$64,241</u>	<u>\$8,475</u>	<u>\$72,716</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$4,572	\$3,332	\$7,904
Net difference between projected and actual earnings on pension plan investments	49,816	1,761	51,577
Change in proportionate share and difference between Authority contributions and proportionate share of contributions	<u>19,266</u>	<u>7,089</u>	<u>26,355</u>
Total Deferred Inflows of Resources	<u>\$73,654</u>	<u>\$12,182</u>	<u>\$85,836</u>

\$38,671 reported as deferred outflows of resources related to pension resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year

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ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional	OPERS Combined	OPERS Total
Year Ending December 31:			
2019	\$2,745	(\$785)	\$1,960
2020	(5,659)	(832)	(6,491)
2021	(21,936)	(1,228)	(23,164)
2022	(20,467)	(1,186)	(21,653)
2023	0	(567)	(567)
Thereafter	0	(1,876)	(1,876)
Total	(\$45,317)	(\$6,474)	(\$51,791)

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 was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement, in accordance with the requirements of GASB 67:

Wage Inflation	3.25 Percent
Future Salary Increases, Including Inflation	3.25 Percent to 10.75 Percent
COLA or Ad hoc COLA	Pre 1/7/2013 retirees: 3 Percent; Post 1/7/2013 retirees: 3 Percent Simple through 2018, then 2.15 Percent Simple
Investment Rate of Return	7.50 Percent
Actuarial Cost Method	Individual Entry Age
Mortality Tables	RP-2014

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

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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 2017, 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 is 16.82 percent for 2017.

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 following table displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

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

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed the 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 benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate The following table presents the Authority’s proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.5 percent, as well as what the Authority’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent), or one percentage point higher (8.5 percent) than the current rate.

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	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Authority's Proportionate Share of the Net Pension Liability (Asset) - Traditional	\$412,020	\$232,026	\$81,966
Authority's Proportionate Share of the Net Pension Liability (Asset) - Combined	(6,082)	(11,189)	(14,712)
Total OPERS	\$405,938	\$220,837	\$67,254

Note 9 – Defined Benefit Other Postemployment Benefits (OPEB) Plan

Net OPEB Liability

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

The net OPEB liability reported on the statement of net position represents a liability to employees for OPEB. OPEB is a component of exchange transactions-between an employer and its employees-of salaries and benefits for employee services. OPEB is 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.

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

The Authority's share of each plan's unfunded benefits is presented as a long-term *net other postemployment benefit liability* on the accrual basis of accounting.

Ohio Revised Code limits the Authority's obligation for liabilities to OPERS to annual required payments. The Authority cannot control benefit terms or the manner in which OPEB from the cost-sharing, multiple-employer plans are financed; however, the Authority does receive the benefit of employees' services in exchange for compensation including OPEB.

GASB Statement No. 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 cost-sharing, multiple-employer retirement systems to provide health care to eligible

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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)

The Authority contributes to the health care plans administered by OPERS. OPERS is a cost-sharing, multiple-employer public employee retirement system comprised of three separate pension plans; the Traditional Pension Plan, a defined benefit plan; the Combined Plan, a combination defined benefit/defined contribution plan; and the Member-Directed Plan, a defined contribution plan.

Prior to January 1, 2015, OPERS provided comprehensive health care coverage to retirees with 10 or more years of qualifying service credit and offered coverage to their dependents on a premium deduction or direct bill basis. Beginning January 1, 2015, the service eligibility criteria for health care coverage increased from 10 years to 20 years with a minimum age of 60, or 30 years of qualifying service at any age. Beginning January 1, 2016, Traditional Pension Plan and Combined Plan Medicare-eligible retirees could select supplemental coverage through the OPERS Medicare Connector (Connector). The Connector is a relationship with a vendor selected by OPERS and tasked with assisting eligible retirees, spouses and dependents with selecting and purchasing Medicare supplemental coverage through the Medicare market. Retirees that purchase supplemental coverage through the Connector may be eligible for monthly allowances deposited into a health reimbursement arrangement account (HRA) to be used for reimbursement of eligible health care expenses.

The OPERS health care plans and prescription drug coverage for non-Medicare eligible recipients are self-insured. Coverage for non-Medicare retirees includes hospitalization, medical expenses and prescription drugs. OPERS determines the amount, if any, of the associated health care costs that will be absorbed by OPERS and attempts to control costs by using managed care, case management and other programs. Participants in the Member-Directed Plan are not eligible for health care coverage offered to benefit recipients in the Traditional Pension and Combined plans. A portion of the employer contributions for these participants is allocated to a retiree medical account. Upon separation or retirement, participants may be reimbursed for qualified medical expenses from these accounts.

Effective January 1, 2007, OPERS implemented, with a five-year phase-in, the Health Care Preservation Plan (HCPP) to improve the long-term solvency of the health care fund. The HCPP features coverage levels and provides monthly allowances for health care coverage for retirees and their dependents based on the retiree's years of service. The allowance is determined at date of retirement and is adjusted for inflation annually thereafter based on OPERS Board-approved caps.

The financial report of the health care plans is included in the OPERS Comprehensive Annual Financial Report which can be obtained at <https://www.opers.org/financial/reports.shtml#CAFR>.

Funding Policy-The Ohio Revised Code permits, but does not require, OPERS to offer postemployment health care coverage. Authority to establish and amend health care coverage is provided to the OPERS Board of Trustees in Chapter 145 of the Ohio Revised Code. Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected.

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The portion of employer contributions allocated to health care for members in the Traditional Pension and Combined plans was 1.0 percent during calendar year 2017. For the calendar year 2018, OPERS decreased the portion allocated to health care to 0 percent. The Authority's contractually required contribution to OPERS health care for 2018 was \$0.

OPEB Liabilities, OPEB Expense and Deferred Outflows of Resources and Deferred inflows of Resources Related to OPEB

The net OPEB liability for OPERS was measured as of December 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to December 31, 2017 by incorporating the expected value of health care cost accruals, the actual health care payments, and interest accruals during the year. The Authority's proportion of the net OPEB liability was based on the Authority's share of contributions to the retirement system relative to the contributions of all participating entities. The following is information related to the proportionate share and OPEB expense:

	OPERS
Proportion of the Net OPEB Liability Prior Measurement Date	0.00254060%
Proportion of the Net OPEB Liability Current Measurement Date	0.00259000%
Change in Proportionate Share	0.00004940%
Proportionate Share of the Net OPEB Liability	\$281,255
OPEB Expense	\$24,917

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

	OPERS
Deferred Outflows of Resources	
Differences between expected and actual experience	\$219
Change of Assumptions	20,478
Change in proportionate share and difference between Airport contributions and proportionate share of contributions	1,942
Total Deferred Outflows of Resources	\$22,639
Deferred Inflows of Resources	
Net difference between projected and actual earnings on pension plan investments	\$20,952

No amount was reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ending December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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	OPERS
Year Ending December 31:	
2019	\$5,587
2020	5,587
2021	(4,249)
2022	(5,238)
Total	\$1,687

Actuarial Assumptions - OPERS

Actuarial valuations of an ongoing plan involve estimates of the value 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 health care costs for financial reporting purposes are based on the substantive plan and include the types of coverages provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017.

Key Methods and Assumptions Used in Valuation of the Total OPEB Liability:

Actuarial Valuation Date	December 31, 2016
Rolled-Forward Measurement Date	December 31, 2017
Experience Study	5-Year Period ended December 31, 2015
Actuarial Cost Method	Individual Age Entry
Actuarial Assumptions:	
Single Discount Rate	3.85 Percent
Investment Rate of Return	6.50 Percent
Municipal Bond Rate	3.31 Percent
Wage Inflation	3.25 Percent
Projected Salary Increases	3.25 - 10.75 Percent (includes wage inflation at 3.25 Percent)
Health Care Cost Trend Rate	7.5 Percent, 3.25 Percent ultimate in 2028

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 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 tables.

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Since the prior measurement date, the single discount rate was decreased from 4.23 percent to 3.85 percent based on a change in the municipal bond rate used between measurement dates.

The allocation of investment assets within the Health Care portfolio is approved by the OPERS Board 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 benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the OPERS Board-approved asset allocation policy for 2017 and the long-term expected real rates of return.

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

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

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

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

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result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate and Changes in the Health Care Cost Trend Rates. The following table present the net OPEB liability calculated using the single discount rate of 3.85% and the expected net OPEB liability if it were calculated using a discount rate that is 1.0 percent lower or 1.0 percent higher than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
Authority's Proportionate Share of the Net OPEB Liability	\$373,659	\$281,255	\$206,501

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

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate:

	1% Decrease	Current Health Care Trend Rate	1% Increase
Airport's Proportionate Share of the Net OPEB Liability	\$269,101	\$281,255	\$293,810

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Note 10 - Capital Assets

A summary of the Authority's capital assets at December 31, 2018 follows:

	Balance 12/31/2017	Additions	Deletions	Balance 12/31/2018
<i>Capital Assets, not being depreciated:</i>				
Land	\$8,892,446	\$30,330	(\$158,750)	\$8,764,026
Construction in Progress	0	173,058	0	173,058
<i>Total Capital Assets, not being depreciated:</i>	8,892,446	203,388	(158,750)	8,937,084
<i>Capital Assets, being depreciated:</i>				
Buildings	1,748,335	74,270	(410,030)	1,412,575
Improvements other than Buildings	690,069	0	0	690,069
Furniture, Equipment and Vehicles	314,191	46,298	0	360,489
<i>Total Capital Assets, being depreciated:</i>	2,752,595	120,568	(410,030)	2,463,133
Less Accumulated Depreciation:				
Buildings	(120,246)	(53,820)	35,308	(138,758)
Improvements other than Buildings	(89,710)	(27,602)	0	(117,312)
Furniture, Equipment and Vehicles	(68,460)	(36,672)	0	(105,132)
<i>Total Accumulated Depreciation</i>	(278,416)	(118,094)	35,308	(361,202)
<i>Total Capital Assets being depreciated, net</i>	2,474,179	2,474	(374,722)	2,101,931
Total Capital Assets, Net	\$11,366,625	\$205,862	(\$533,472)	\$11,039,015

Note 11 – Other Employee Benefits

A. Sick Days

Full time employees earn sick leave benefits at the rate of fifteen (15) paid sick days per year using the anniversary date of hire for calculating the days. They will accumulate at the rate of 4.6 hours for each 80 hours of completed employment. There is no cash payout of unused sick days at the end of each year, therefore, there was no liability for accrued but unused sick days as of December 31, 2018.

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B. Vacation

Full time employees are eligible for paid vacation time depending upon length of service. Vacation for full-time exempt and non-exempt employees is earned as follows:

During first year of employment	3.10 hours per 80 hours worked (10 days)
After first year of employment	15 days
After tenth year of employment	20 days
After twenty years of employment	25 days

Part-time employees shall receive the same vacation benefits as full-time employees, but the number of vacation days is to be prorated against the number of working hours recorded each week to determine vacation days. Example: during the first year, an employee who works 20 hours per week, will have earned 20 hours after six months of work, and immediately after working part-time for one full calendar year, will begin earning approximately 2.3 hours of vacation every two weeks.

If vacation is carried over no more than twenty days (20) will be allowed to be carried over. Vacation time earned and paid out after December 31st is reported as vacation benefits payable on the accompanying statement of net position.

Note 12 - Risk Management

Commercial Insurance

The Authority has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

Note 13 – Contingent Liabilities

Financial Assistance - The Authority receives financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits may require refunding to grantor agencies. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statements included herein or on the overall financial position of the Authority as of December 31, 2018.

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City of Willoughby - As a part of the transfer agreement to acquire the Lost Nation Airport, the Authority contingently agreed to repay the City of Willoughby for outstanding advances in the amount of \$750,000. The Authority will not be required to make any payments to the City until the Airport reports and deposits \$100,000 into a reserve fund for two consecutive years.

If the Airport does meet the \$100,000 criteria for two consecutive years, then the City and the Authority will agree upon a 30 year amortization. If the reserve fund drops below \$50,000 the Authority can stop making payments until it meets the original criteria again.

Note 14 – Willoughby Lost Nation Municipal Airport

During 2014, the Authority acquired, through transfer of ownership, the Willoughby Lost Nation Municipal Airport from the City of Willoughby, situated on approximately 420 acres in Willoughby and the City of Mentor. It is located approximately 3 miles north of downtown Willoughby and 16 miles east of downtown Cleveland.

As a part of this transfer of ownership, the Authority has agreed to take over the City's payments on an outstanding revenue bond in the amount of \$150,000 and is now obligated to make annual debt service payments to the City. This liability has been recorded on the Statement of Net Position as a loan payable to the City of Willoughby. The transfer agreement also contains a \$750,000 contingent liability if the Airport meets \$100,000 operating surpluses over two consecutive years. This contingent liability has not been recorded on the Statement of Net Position.

The Airport is a corporate airport that has two runways; runway 5-23 which is 5,013 feet long by 100 feet wide, and runway 10-28 which is 4,835 feet long by 100 feet wide. Facilities include AWOS III weather, a full-service Fixed Base Operator (FBO) providing fuel, major airframe/power-plant repairs, aircraft tie-down and hangar storage. Both 100LL and Jet A fuel are available. Based aircraft number 86 and include single and multi-engine, turbo prop and jet with approximately 35-40 thousand aircraft operations annually. Additionally, there are 6 multi-tenant hangars to house private and corporate aircraft.

The Airport requests grant funds from the Federal Aviation Administration (FAA) Airport Improvement Program to make significant improvements to runways to provide a well maintained, first class airport to support the business community and economic health of Lake County, as a valuable tool for the attraction and expansion of business and industry in Lake County and the region.

Note 15 – Capitalized Lease – Lessee Disclosure

The Authority entered into a capital lease obligation for the purchase of 1 copier. Capital lease payments have been reclassified and are reflected as debt service expenditures in the basic financial statements.

Capital assets consisting of equipment have been capitalized in the amount of \$33,000. This amount represents the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded in the basic financial statements. Principal and interest payments on the copiers lease totaled \$6,600 and \$522, respectively, in 2018.

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The following is a schedule of the future minimum lease payments required under the capital lease obligation and the present value of the future minimum lease payments as of December 31, 2018:

Year Ending December 31,	
2019	\$7,050
2020	7,000
Total Minimum Lease Payments	14,050
Less: Amount Representing Interest	(850)
Present Value of Minimum Lease	\$13,200

Note 16 – Note Receivable

Weston Inc.

During 2018, the Authority sold a 10.667 acre parcel of land to Weston Inc. for \$533,350. The Authority was carrying the land at a value of \$158,750, resulting in a gain on sale of \$374,600. \$20,000 was received in 2018 and the balance will be received as follows:

Year Ending December 31;	Amount
2019	\$40,000
2020	40,000
2021	47,382
2022	54,764
2023	54,764
2024 - 2028	276,440
Total	\$513,350

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Required Supplementary Information

*Schedule of the Authority's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System (OPERS) - Traditional Plan
Last Five Years (1)*

	2018	2017	2016	2015	2014
Authority's Proportion of the Net Pension Liability	0.0014790%	0.0014750%	0.0017920%	0.0027790%	0.0027790%
Authority's Proportionate Share of the Net Pension Liability	\$232,026	\$334,947	\$310,397	\$335,179	\$327,608
Authority's Covered Payroll	\$195,438	\$210,508	\$299,058	\$340,667	\$341,810
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	118.72%	159.11%	103.79%	98.39%	95.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.66%	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2013 is not available.

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

See accompanying notes to the required supplementary information.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY
Required Supplementary Information

*Schedule of the Authority's Proportionate Share of the Net Pension Asset
Ohio Public Employees Retirement System (OPERS) - Combined Plan
Last Five Years (1)*

	2018	2017	2016	2015	2014
Authority's Proportion of the Net Pension Asset	0.00821900%	0.00847800%	0.00226600%	0.02612600%	0.02612600%
Authority's Proportionate Share of the Net Pension Asset	\$11,189	\$4,719	\$1,103	\$10,059	\$2,741
Authority's Covered Payroll	\$18,446	\$33,258	\$84,353	\$95,500	\$95,821
Authority's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	60.66%	14.19%	1.31%	10.53%	2.86%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	137.28%	116.55%	116.90%	114.83%	104.56%

(1) Information prior to 2013 is not available.

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

See accompanying notes to the required supplementary information.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY

Required Supplementary Information

*Schedule of the Authority's Proportionate Share of the Net OPEB Liability
Ohio Public Employees Retirement System (OPERS)
Last Two Years (1)*

	<u>2018</u>	<u>2017</u>
Authority's Proportion of the Net OPEB Liability	0.00259000%	0.00254060%
Authority's Proportionate Share of the Net OPEB Liability	\$281,255	\$256,604
Authority's Covered Payroll	\$213,884	\$243,766
Authority's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	131.50%	105.27%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	54.14%	54.05%

(1) Information prior to 2017 is not available.

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

See accompanying notes to the required supplementary information.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY
Required Supplementary Information

Schedule of Authority Pension Contributions
Ohio Public Employees Retirement System (OPERS) - Traditional Plan
Last Six Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Pension Contribution	\$35,904	\$25,407	\$25,261	\$35,887	\$40,880	\$44,435
Pension Contributions in Relation to the Contractually Required Contribution	(\$35,904)	(\$25,407)	(\$25,261)	(\$35,887)	(\$40,880)	(\$44,435)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Authority Covered Payroll	\$256,457	\$195,438	\$210,508	\$299,058	\$340,667	\$341,810
Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 available upon request.

See accompanying notes to the required supplementary information and amounts presented in Note 8.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY
Required Supplementary Information

Schedule of Authority Pension Contributions
Ohio Public Employees Retirement System (OPERS) - Combined Plan
Last Six Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required Pension Contribution	\$2,767	\$2,398	\$3,991	\$10,122	\$11,460	\$12,457
Pension Contributions in Relation to the Contractually Required Contribution	(\$2,767)	(\$2,398)	(\$3,991)	(\$10,122)	(\$11,460)	(\$12,457)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Authority Covered Payroll	\$19,764	\$18,446	\$33,258	\$84,353	\$95,500	\$95,821
Contributions as a Percentage of Covered Payroll	14.00%	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 available upon request.

See accompanying notes to the required supplementary information and amounts presented in Note 8.

LAKE COUNTY OHIO PORT & ECONOMIC DEVELOPMENT AUTHORITY
Required Supplementary Information

Schedule of Authority OPEB Contributions
Ohio Public Employees Retirement System (OPERS)
Last Six Years (1)

	2018	2017	2016	2015	2014	2013
Contractually Required OPEB Contribution	\$0	\$1,954	\$4,875	\$7,668	\$8,723	\$8,753
OPEB Contributions in Relation to the Contractually Required Contribution	\$0	(\$1,954)	(\$4,875)	(\$7,668)	(\$8,723)	(\$8,753)
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Authority Covered Payroll	\$276,221	\$213,884	\$243,766	\$383,411	\$436,167	\$437,631
Contributions as a Percentage of Covered Payroll	0.00%	0.91%	2.00%	2.00%	2.00%	2.00%

(1) Information prior to 2013 available upon request.

See accompanying notes to the required supplementary information and amounts presented in Note 9.

Lake County Ohio Port & Economic Development Authority
Lake County, Ohio

*Notes to the Required Supplementary Information
For the Year Ended December 31, 2018*

Pension

Ohio Public Employees Retirement System (OPERS)

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

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

Other Postemployment Benefits (OPEB)

Ohio Public Employees Retirement System (OPERS)

Changes in benefit terms : There were no changes in benefit terms from the amounts reported for 2017-2018.

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

OHIO AUDITOR OF STATE KEITH FABER



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

Lake County Ohio Port and Economic Development Authority
Lake County
One Victoria Place, Suite 165A
Painesville, Ohio 44077

To the Board of Trustees:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of each major fund of the Lake County Ohio Port and Economic Development Authority, Lake County, Ohio, a component unit of Lake County, (the Port Authority) as of and for the year ended December 31, 2018, 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 September 24, 2019, wherein we noted the Port Authority adopted new accounting guidance in Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the Port Authority's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

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

Purpose of this Report

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



Keith Faber
Auditor of State

Columbus, Ohio

September 24, 2019

OHIO AUDITOR OF STATE KEITH FABER



LAKE COUNTY OHIO PORT AND ECONOMIC DEVELOPMENT AUTHORITY

LAKE COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 8, 2019**