

***CITY OF PORT CLINTON***

**OTTAWA COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended December 31, 2016**







# Dave Yost • Auditor of State

City Council  
City of Port Clinton  
1868 East Perry Street  
Port Clinton, Ohio 43452

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2016 through December 31, 2016. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost  
Auditor of State

August 22, 2017

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**CITY OF PORT CLINTON**  
**OTTAWA COUNTY, OHIO**  
**Audit Report**  
**For the Year Ended December 31, 2016**

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**INDEPENDENT AUDITOR'S REPORT**

City of Port Clinton  
Ottawa County  
1868 East Perry Street  
Port Clinton, Ohio 43452

To the Members of City Council:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the City of Port Clinton, Ottawa County, (the City) as of and for the year ended December 31, 2016.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the 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 City'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 City's internal control. Accordingly, we express no 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

***Basis for Adverse Opinion***

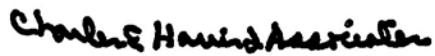
As described in Note 2 of the financial statements, the City prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 2 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

**Adverse Opinion**

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations and cash flows, where applicable of the City of Port Clinton, Ottawa County as of and for the year ended December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2017, on our consideration of the City'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 City's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**  
June 26, 2017



**CITY OF PORT CLINTON  
OTTAWA COUNTY  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Governmental Fund Types</u>				<b>Totals (Memorandum Only)</b>
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
<b>Cash Receipts</b>					
Property and Other Local Taxes	\$ 505,373	\$ 255,999	\$ -	\$ 20,161	\$ 781,533
Municipal Income Tax	2,651,497	-	-	-	2,651,497
Intergovernmental	501,794	807,067	-	113,505	1,422,366
Special Assessments	-	-	-	9,741	9,741
Charges for Services	59,221	138,642	-	-	197,863
Fines, Licenses and Permits	58,509	1,335	-	-	59,844
Earnings on Investments	5,805	30,432	-	1,261	37,498
Miscellaneous	49,255	33,440	-	522	83,217
<i>Total Cash Receipts</i>	<u>3,831,454</u>	<u>1,266,915</u>	<u>-</u>	<u>145,190</u>	<u>5,243,559</u>
<b>Cash Disbursements</b>					
Current:					
Security of Persons and Property	2,035,744	478,940	-	105,143	2,619,827
Public Health Services	141,195	-	-	-	141,195
Leisure Time Activities	58,680	-	-	-	58,680
Community Environment	23,492	-	-	-	23,492
Transportation	-	414,188	-	-	414,188
General Government	802,163	453,505	-	-	1,255,668
Capital Outlay	-	150,736	-	719,552	870,288
Debt Service:					
Principal Retirement	31,593	-	-	99,024	130,617
Interest & Fiscal Charges	551	-	-	12,645	13,196
<i>Total Cash Disbursements</i>	<u>3,093,418</u>	<u>1,497,369</u>	<u>-</u>	<u>936,364</u>	<u>5,527,151</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	738,036	(230,454)	-	(791,174)	(283,592)
<b>Other Financing Receipts (Disbursements)</b>					
Sale of Bonds	-	-	-	650,000	650,000
Transfers In	-	95,000	-	242,255	337,255
Transfers Out	(337,255)	-	-	-	(337,255)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(337,255)</u>	<u>95,000</u>	<u>-</u>	<u>892,255</u>	<u>650,000</u>
<i>Net Change in Fund Cash Balances</i>	400,781	(135,454)	-	101,081	366,408
<i>Fund Cash Balances, January 1</i>	<u>55,815</u>	<u>844,989</u>	<u>37,790</u>	<u>522,569</u>	<u>1,461,163</u>
<b>Fund Cash Balances, December 31</b>					
Nonspendable	21,456	-	-	-	21,456
Restricted	-	783,949	37,790	625,989	1,447,728
Unassigned	435,140	(74,414)	-	(2,339)	358,387
<i>Fund Cash Balances, December 31</i>	<u>\$ 456,596</u>	<u>\$ 709,535</u>	<u>\$ 37,790</u>	<u>\$ 623,650</u>	<u>\$ 1,827,571</u>

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

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN CASH FUND BALANCES  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Proprietary Fund Types Enterprise</u>	<u>Fiduciary Fund Types Agency</u>	<u>Totals (Memorandum Only)</u>
<b>Operating Cash Receipts</b>			
Charges for Services	\$ 4,658,201	-	\$ 4,658,201
Fines, Licenses and Permits	14,045	-	14,045
Miscellaneous	72,394	\$ 11,500	83,894
<i>Total Operating Cash Receipts</i>	4,744,640	11,500	4,756,140
<b>Operating Cash Disbursements</b>			
Personal Services	1,202,733	-	1,202,733
Employee Fringe Benefits	496,056	-	496,056
Contractual Services	1,203,302	-	1,203,302
Supplies and Materials	476,905	-	476,905
Other	3,500	11,500	15,000
<i>Total Operating Cash Disbursements</i>	3,382,496	11,500	3,393,996
<i>Operating Income (Loss)</i>	1,362,144	-	1,362,144
<b>Non-Operating Receipts (Disbursements)</b>			
OWDA Loan Proceeds	76,318	-	76,318
Payroll Deductions	-	1,101,208	1,101,208
Payment of Payroll Deductions	-	(1,101,514)	(1,101,514)
Capital Outlay	(298,537)	-	(298,537)
Principal Retirement	(988,958)	-	(988,958)
Interest and Other Fiscal Charges	(317,418)	-	(317,418)
<i>Total Non-Operating Receipts (Disbursements)</i>	(1,528,595)	(306)	(1,528,901)
<i>Net Change in Fund Cash Balances</i>	(166,451)	(306)	(166,757)
<i>Fund Cash Balances, January 1</i>	569,094	29,041	598,135
<i>Fund Cash Balances, December 31</i>	<u>\$ 402,643</u>	<u>\$ 28,735</u>	<u>\$ 431,378</u>

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

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 1 - Reporting Entity**

The City of Port Clinton, Ottawa County (the City), is a body politic and corporate established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. A publicly-elected six-member Council directs the City. The City provides general governmental services, water and sewer services, park and recreation operations, road repair and maintenance, fire protection services, and police services.

***Public Entity Risk Pools***

The City participates in Ohio Risk Plan Management, Inc. (OPRM), a public entity risk pool. Note 6 to the financial statements provides additional information for this entity.

The City's management believes these financial statements present all activities for which the City is financially accountable.

**Note 2 - Summary of Significant Accounting Policies**

***Basis of Presentation***

The City's financial statements consist of a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (cash basis) for all proprietary and fiduciary fund types which are organized on a fund type basis.

***Fund Accounting***

The City 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. The funds of the City are presented below:

***General Fund*** The general fund accounts for and reports all financial resources not accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Special Revenue Funds*** These funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The City had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund – The street construction, maintenance and repair fund accounts for and reports gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing City streets.

Fire Levy Fund – The fire levy fund accounts for and reports the receipt of property tax monies and charges for services for the purpose of providing fire protection services to City residents.

CHIP – HOME Fund – The CHIP-HOME fund accounts for and reports the receipt of intergovernmental grants for the purpose of assisting in the rehabilitation and revitalization of properties within the City.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 - Summary of Significant Accounting Policies (continued)**

***Debt Service Funds*** These funds account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. The City had the following significant Debt Service Fund:

Special Assessment Bond Retirement Fund – The special assessment bond retirement fund is used to account for and report assessments collected from property owners for the purpose of repaying various special assessment bonds.

***Capital Project Funds*** These funds account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The City had the following significant Capital Project Fund:

Municipal Purpose Fund – The municipal purpose fund accounts for and reports special assessments and other resources restricted for capital acquisition and improvements.

***Enterprise Funds*** These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The City had the following significant Enterprise Funds:

Water Fund – The water fund receives charges for services from residents to cover water service costs.

Sewer Fund – The sewer fund receives charges for services from residents to cover sewer service costs.

***Fiduciary Funds*** Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The City disburses these funds as directed by the individual, organization or other government. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

***Basis of Accounting***

Although required by Ohio Administrative Code 117-2-03 to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the City has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements accounting basis. The Council recognizes receipts when received in cash rather than when earned, and recognizes disbursements when paid rather than when a liability is incurred. Budgetary presentations report budgetary disbursements when a commitment is made (i.e., when an encumbrance is approved).

***Budgetary Process***

The Ohio Revised Code requires that each fund (except certain agency funds) budgeted annually.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**Appropriations** Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. The City Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure.

**Estimated Resources** Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**Encumbrances** The Ohio Revised Code requires the City to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2016 budgetary activity appears in Note 3.

***Deposits and Investments***

The City's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

***Capital Assets***

The City records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

***Accumulated Leave***

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

***Fund Balance***

Fund balance is divided into five classifications based primarily on the extent to which the City must observe constraints imposed upon the use of its governmental-fund resources. The classifications are as follows:

***Nonspendable*** The City classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact. The City's unclaimed monies are reported as nonspendable.

***Restricted*** Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 2 - Summary of Significant Accounting Policies (continued)**

**Committed** Council can *commit* amounts via formal action (ordinance or resolution). The City must adhere to these commitments unless the Council amends the ordinance or resolution. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**Assigned** Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by City Council or a City official delegated that authority by resolution, or by State Statute. Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenues and appropriations in the subsequent year's appropriated budget in the General Fund.

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**Pensions**

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

**Note 3 - Budgetary Activity**

Budgetary activity for the year ending December 31, 2016 follows:

2016 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 5,759,500	\$ 3,831,454	\$ (1,928,046)
Special Revenue	1,477,220	1,361,915	(115,305)
Debt Service	9,000	-	(9,000)
Capital Projects	1,202,481	1,037,445	(165,036)
Enterprise	5,411,600	4,820,958	(590,642)

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 3 - Budgetary Activity (continued)**

2016 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 5,607,344	\$ 3,430,673	\$ 2,176,671
Special Revenue	1,919,587	1,497,369	422,218
Debt Service	5,045	-	5,045
Capital Projects	1,335,802	936,364	399,438
Enterprise	5,316,700	4,987,409	329,291

**Note 4 – Deposits and Investments**

The City maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

	2016
Demand deposits	\$ 1,100,919
Certificates of deposit	500,000
First Federal Savings	600,000
Perpetual Care Savings	57,155
Total deposits	\$ 2,258,074

The City also had \$875 of petty cash on hand as of December 31, 2016.

***Deposits***

Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**Note 5 – Taxes**

***Property Taxes***

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the City. Ottawa County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the City.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 5 – Taxes (continued)**

***Income Taxes***

The City levies a municipal income tax of two percent on substantially all earned income arising from employment, residency, or business activities within the City as well as certain income of residents earned outside of the City.

Employers within the City withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**Note 6 - Risk Management**

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

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

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. Effective November 1, 2014, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 772 and 783 members as of December 31, 2015 and 2014, respectively.

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2015 and 2014 (the latest information available).

	2015	2014
Assets	\$14,643,667	\$14,830,185
Liabilities	(9,112,030)	(8,942,504)
Members' Equity	\$5,531,637	\$5,887,681



**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 6 - Risk Management (continued)**

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**Note 7 - Defined Benefit Pension Plans**

***Net Pension Liability***

The net pension liability is not reported in the accompanying financial statements. The net pension liability has been disclosed below.

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

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

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

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

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

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 7 - Defined Benefit Pension Plans (continued)**

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code.

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

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

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

Final average Salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

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

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 7 - Defined Benefit Pension Plans (continued)**

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

	State and Local
<b>2016 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee	10.0 %
 <b>2016 Actual Contribution Rates</b>	
Employer:	
Pension	12.0 %
Post-employment Health Care Benefits	2.0
 Total Employer	 14.0 %
 Employee	 10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$287,327 for year 2016.

***Plan Description – Ohio Police & Fire Pension Fund (OPF)***

Plan Description - City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan administered by OPF. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OPF fiduciary net position. The report that may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OPF may retire and receive a lifetime monthly pension. OPF offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 7 - Defined Benefit Pension Plans (continued)**

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

Under normal service retirement, retired members who are at least 55 years old and have been receiving OPF benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit and statutory survivors.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to three percent of their base pension or disability benefit.

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

	Police	Firefighters
<b>2016 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2016 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OPF was \$178,685 for 2016.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 7 - Defined Benefit Pension Plans (continued)**

***Net Pension Liability***

The net pension liability for OPERS was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OPF's total pension liability was measured as of December 31, 2015, and was determined by rolling forward the total pension liability as of January 1, 2015, to December 31, 2015. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS	OP&F
Proportion of the Net Pension Liability - prior measurement date	0.0018430%	0.0376603%
Proportion of the Net Pension Liability - current measurement date	0.0137830%	0.0378940%
Change in Proportionate Share	-0.0119400%	-0.0002337%
Proportionate Share of the Net Pension Liability	\$ 2,387,389	\$ 2,437,748

***Actuarial Assumptions - OPERS***

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage Inflation	3.75 percent
Future Salary Increases, including inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	8 percent
Actuarial Cost Method	Individual Entry Age

Mortality rates were based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 7 - Defined Benefit Pension Plans (continued)**

The most recent experience study was completed for the five year period ended December 31, 2010.

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.

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Defined Benefit portfolio includes the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan, the annuitized accounts of the Member-Directed Plan and the VEBA Trust. 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 money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 0.4 percent for 2015.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2015 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	23.00 %	2.31 %
Domestic Equities	20.70	5.84
Real Estate	10.00	4.25
Private Equity	10.00	9.25
International Equities	18.30	7.40
Other investments	18.00	4.59
Total	<u>100.00 %</u>	<u>5.27 %</u>

**Discount Rate** The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 7 - Defined Benefit Pension Plans (continued)**

***Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*** The following table presents the City's proportionate share of the net pension liability calculated using the current period discount rate assumption of 8 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (7 percent) or one-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$ 3,803,694	\$ 2,387,389	\$ 1,192,781

***Changes Between Measurement Date and Report Date***

In October 2016, the OPERS Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of December 31, 2016. The most significant change is a reduction in the discount rate from 8.0 percent to 7.5 percent. Although the exact amount of these changes is not known, the impact to the City's net pension liability is expected to be significant.

***Actuarial Assumptions – OPF***

OPF's total pension liability as of December 31, 2015 is based on the results of an actuarial valuation date of January 1, 2015, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OPF's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2015, are presented below:

Valuation Date	January 1, 2015
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent
Cost of Living Adjustments	2.60 percent and 3.00 percent

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 7 - Defined Benefit Pension Plans (continued)**

Rates of death are based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

The most recent experience study was completed January 1, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OPF's target asset allocation as of December 31, 2015 are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>10 Year Expected Real Rate of Return**</u>	<u>30 Year Expected Real Rate of Return**</u>
Cash and Cash Equivalents	- %	0.00 %	0.00 %
Domestic Equity	16.00	6.50	7.80
Non-US Equity	16.00	6.70	8.00
Core Fixed Income *	20.00	3.50	5.35
Global Inflation Protected *	20.00	3.50	4.73
High Yield	15.00	6.35	7.21
Real Estate	12.00	5.80	7.43
Private Markets	8.00	9.50	10.73
Timber	5.00	6.55	7.35
Master Limited Partnerships	<u>8.00</u>	9.65	10.75
<b>Total</b>	<u><u>120.00 %</u></u>		

Note: Assumptions are geometric.

\* levered 2x

\*\*Numbers are net of expected inflation

OPF's Board of Trustees has incorporated the "risk parity" concept into OPF's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.



**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 7 - Defined Benefit Pension Plans (continued)**

**Discount Rate** The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a 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 City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net pension liability calculated using the discount rate of 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$ 3,215,063	\$ 2,437,747	\$ 1,779,285

**Note 8 – Debt**

Debt outstanding at December 31, 2016 was as follows:

	Principal	Interest Rate
General Obligation Bonds - Governmental	\$ 715,000	3.75%
General Obligation Bonds - Proprietary	2,630,000	3.75%
OPWC Loans	114,392	0.00%
OWDA Loan	9,760,349	1-5.54%
Total	\$ 13,219,741	

**General Obligation Bonds**

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton and are payable from un-voted property tax revenues to the extent that other resources are not available to meet annual principal and interest payments. The bonds will be paid from the General Fund, the Second and Laurel capital projects fund, and the Water and Sewer enterprise funds.

The bonds maturing on or after December 1, 2016, are subject to prior redemption, by and at the sole option of the City, either in whole or in part, and in integral multiples of \$5,000, on any date on or after June 1, 2015, at par plus accrued interest to the redemption date.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

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**Note 8 – Debt (continued)**

***OPWC Loans***

The City has entered into loan agreements with the Ohio Public Works Commission for improvements at the wastewater treatment plant, a standby generator, and Jackson Street water and sewer lines. The loans are interest free. The loans will be paid from resources of the Water and Sewer enterprise funds.

***OWDA Loans***

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water tower, wastewater treatment plant improvements, Third Street Sewer separation, Second Street water main replacement, Third Street Waterline, Sixth Street water lines, sanitary and storm sewer improvements, water main replacement, water distribution system, and sewer interceptor. The loans will be paid from resources of the Water and Sewer enterprise funds. Interests' rate buy-down in three OWDA loans resulted in savings of \$29,288 in 2016. The prior audited balance of the OWDA loans was overstated by \$33,435.

The OPWC and OWDA loans will be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years.

***Leases***

The City leases vehicles under noncancelable leases. The City disbursed \$90,866 to pay lease costs for the year ended December 31, 2016. Capital lease obligations will be paid from the fund that maintains custody of the related asset. The City leases several police cruisers, a street sweeper and a sewer truck. The street sweeper payments are split 50/50 between the Special Revenue and the Enterprise fund.

**City of Port Clinton**  
*Ottawa County*  
*Notes to the Financial Statements*  
*For the Year Ended December 31, 2016*

**Note 8 – Debt (continued)**

***Amortization***

Amortization of the above debt, including interest, is scheduled as follows:

Year ending December 31:	General Obligation Bonds Governmental	General Obligation Bonds Proprietary	OPWC Loans	OWDA Loans	Capital Leases
2017	\$ 96,653	\$ 281,435	\$ 15,260	\$ 1,030,893	\$ 79,785
2018	94,406	284,635	15,260	1,030,893	74,428
2019	92,161	282,435	15,260	981,632	74,428
2020	89,914	285,035	15,260	929,999	74,428
2021	87,668	1,433,545	15,260	910,077	53,527
2022-2026	340,114	862,000	38,092	3,717,463	267,636
2027-2031	33,300	-	-	2,197,792	107,054
2032-2036	-	-	-	667,761	-
2037-2041	-	-	-	542,145	-
2042-2046	-	-	-	396,058	-
2047-2051	-	-	-	8,624	-
Total	<u>\$ 834,216</u>	<u>\$ 3,429,085</u>	<u>\$ 114,392</u>	<u>\$ 12,413,337</u>	<u>\$ 731,286</u>

**Note 9 – Contingent Liabilities**

The City may be a defendant in lawsuits. Although management cannot presently determine the outcome of any suit, management believes that the resolution of any matter will not materially adversely affect the City's financial condition.

**Note 10 – Compliance**

Contrary to Ohio law, at December 31, 2016, the CHIP – CDBG, CHIP – HOME and Madison Street Reconstruction funds had cash deficit balances of (\$24,773), (\$49,641) and (\$2,339), respectively.

**Note 11 – Transfers**

The General Fund transferred amounts to various funds during the year to subsidize operations and make debt payments. All transfers were for a proper purpose and were approved by the City Council as required.

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

City of Port Clinton  
Ottawa County  
1868 East Perry Street  
Port Clinton, Ohio 43452

To the Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the City of Port Clinton, Ottawa County (the City) as of and for the year ended December 31, 2016, and the related notes to the financial statements and have issued our report thereon dated June 26, 2017, wherein we issued and adverse opinion because the City followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-0-03(D) permit rather than accounting principles generally accepted in the United States of America.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City'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 City'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 City'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 instances of noncompliance or other matters we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2016-001 and 2016-002.

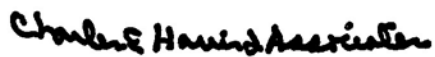
We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 26, 2017.

***City's Responses to Findings***

The City's responses to the findings identified in our audit are described in the accompanying corrective action plan. We did not audit the City's responses and, accordingly, we express no opinion on them.

***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 City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris and Associates, Inc.***  
June 26, 2017

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2016**

<b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b>
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**Finding Number 2016-001 – Noncompliance Citation**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

**Ohio Adm. Code § 117-2-03 (B)** requires all cities to file annual financial reports in accordance with generally accepted accounting principles (GAAP). The City prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The City should prepare its financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements and to comply with the Ohio Revised Code and the Ohio Administrative Code.

**Management’s Response:**

See Corrective Action Plan.

**Finding Number 2016-002 – Noncompliance Citation**

**Ohio Rev. Code Section 5705.10(H)** states that money paid into a fund must be used only for the purposes for which such fund has been established. As a result, a negative fund balance indicates that money from one fund was used to cover the expenses of another fund.

We noted during our audit that the CHIP – CDBG, CHIP – HOME and Madison Street Reconstruction funds had cash deficit balances of (\$24,773), (\$49,641) and (\$2,339), respectively.

We recommend Council pay close attention to the financial reports the City Auditor provides and maintain vigilance over each fund and its respective balance in the future.

**Management’s Response:**

See Corrective Action Plan.

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2016**

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Status</b>	<b>Additional Information</b>
2015-001	Noncompliance: Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03 (B) Reporting financial statements according to GAAP.	Not Corrected	Repeated as Finding 2016-001
2015-002	Material weakness: Audit Adjustments and Transaction Reclassification.	Corrective Action Taken and Finding is Fully Corrected	
2015-003	Material weakness: Failure to reconcile cash bank balance to the accounting record's cash balance each month.	Corrective Action Taken and Finding is Fully Corrected	

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**CORRECTIVE ACTION PLAN  
For the Year Ended December 31, 2016**

<b>Finding Number</b>	<b>Planned Corrective Action</b>	<b>Anticipated Completion Date</b>	<b>Responsible Contact Person</b>
2016-001	Through careful consideration, the City of Port Clinton has determined that filing an annual financial report on a cash accounting basis is a more cost effective methodology and provides a clearer overview of the City's complete financial operations. The City will continue to explore methodologies that will allow the City to report on a generally accepted accounting principles (GAAP) based on financial resource availability.	N/A	Cole D. Hatfield, Auditor
2016-002	The CHIP-CDBG, CHIP-Home and Madison Street Reconstruction funds had deficit cash balances as of 12/31/2016 due to the fact that these funds are reimbursable funds that require the City of Port Clinton to seek reimbursement for previous expenditures. While the City of Port Clinton sought reimbursement for these expenditures prior to 12/31/2016, the reimbursement funds were not received by the City of Port Clinton until 2017.	N/A	Cole D. Hatfield, Auditor





# Dave Yost • Auditor of State

CITY OF PORT CLINTON

OTTAWA COUNTY

## CLERK'S CERTIFICATION

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

*Susan Babbitt*

CLERK OF THE BUREAU

CERTIFIED  
SEPTEMBER 5, 2017