



OHIO AUDITOR OF STATE
KEITH FABER

**CITY OF PORT CLINTON
OTTAWA COUNTY**

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OHIO AUDITOR OF STATE KEITH FABER



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INDEPENDENT AUDITOR'S REPORT

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

To the City Council:

Report on the Audit of the Financial Statements

Adverse Opinion

We have audited the financial statements of the cash balances, receipts and disbursements for each governmental and proprietary fund type of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2023, and related notes to the financial statements.

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on the Financial Statements as a Whole* section of our report, the accompanying financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City, as of December 31, 2023, or the changes in financial position or, where applicable, cash flows thereof for the year then ended.

Basis for Adverse Opinion on the Financial Statements as a Whole

As described in Note 2 of the financial statements, the financial statements are prepared by the City on the basis of the financial reporting provisions of Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(C) 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 and pervasive.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(C) permit; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2025, 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. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Keith Faber
Auditor of State
Columbus, Ohio

March 3, 2025

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City of Port Clinton
Ottawa County
*Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)*
All Governmental Fund Types
For the Year Ended December 31, 2023

	General	Special Revenue	Debt Service	Capital Projects	Combined Total
Cash Receipts					
Property and Other Local Taxes	\$957,536	\$306,310		\$7,431	\$1,271,277
Municipal Income Tax	3,527,037				3,527,037
Intergovernmental	405,022	640,237		64,961	1,110,220
Special Assessments	2,330			34	2,364
Charges for Services	350,660	1,310,130			1,660,790
Fines, Licenses and Permits	11,440	896			12,336
Earnings on Investments	21				21
Miscellaneous	57,537	79,671		5,243	142,451
<i>Total Cash Receipts</i>	<i>5,311,583</i>	<i>2,337,244</i>		<i>77,669</i>	<i>7,726,496</i>
Cash Disbursements					
Current:					
Security of Persons and Property	2,848,440	2,035,195			4,883,635
Public Health Services	452,388				452,388
Leisure Time Activities	57,102				57,102
Community Environment	47,035				47,035
Transportation		581,948			581,948
General Government	1,252,113	47,853			1,299,966
Capital Outlay				249,956	249,956
Debt Service:					
Principal Retirement	204,198	46,695		121,066	371,959
Interest and Fiscal Charges	42,538	6,832		15,409	64,779
<i>Total Cash Disbursements</i>	<i>4,903,814</i>	<i>2,718,523</i>		<i>386,431</i>	<i>8,008,768</i>
<i>Excess of Receipts Over (Under) Disbursements</i>	<i>407,769</i>	<i>(381,279)</i>		<i>(308,762)</i>	<i>(282,272)</i>
Other Financing Receipts (Disbursements)					
Transfers In		10,525		100,000	110,525
Transfers Out	(110,525)				(110,525)
Advances In		200,000			200,000
Advances Out	(200,000)				(200,000)
<i>Total Other Financing Receipts (Disbursements)</i>	<i>(310,525)</i>	<i>210,525</i>		<i>100,000</i>	
<i>Net Change in Fund Cash Balances</i>	<i>97,244</i>	<i>(170,754)</i>		<i>(208,762)</i>	<i>(282,272)</i>
<i>Fund Cash Balances, January 1</i>	<i>986,689</i>	<i>1,457,234</i>	<i>\$37,790</i>	<i>1,031,298</i>	<i>3,513,011</i>
Fund Cash Balances, December 31					
Nonspendable	21,456				21,456
Restricted		1,286,480	37,790	791,354	2,115,624
Committed	17,109			31,182	48,291
Assigned	436,104				436,104
Unassigned	609,264				609,264
<i>Fund Cash Balances, December 31</i>	<i>\$1,083,933</i>	<i>\$1,286,480</i>	<i>\$37,790</i>	<i>\$822,536</i>	<i>\$3,230,739</i>

See accompanying notes to the financial statements

City of Port Clinton
Ottawa County
Combined Statement of Receipts, Disbursements
and Changes in Fund Balances (Regulatory Cash Basis)
All Proprietary Fund Type
For the Year Ended December 31, 2023

	Proprietary Fund Type
	Enterprise
Operating Cash Receipts	
Charges for Services	\$5,931,918
Fines, Licenses and Permits	41,515
Intergovernmental	41,322
Miscellaneous	<u>37,368</u>
<i>Total Operating Cash Receipts</i>	<u>6,052,123</u>
Operating Cash Disbursements	
Personal Services	1,100,222
Employee Fringe Benefits	745,320
Contractual Services	1,067,915
Supplies and Materials	1,094,098
Other	<u>69</u>
<i>Total Operating Cash Disbursements</i>	<u>4,007,624</u>
<i>Operating Income</i>	<u>2,044,499</u>
Non-Operating Receipts (Disbursements)	
Property and Other Local Taxes	579,829
Other Debt Proceeds	64,141
Capital Outlay	(144,747)
Principal Retirement	(1,281,093)
Interest and Other Fiscal Charges	<u>(193,729)</u>
<i>Total Non-Operating Receipts (Disbursements)</i>	<u>(975,599)</u>
<i>Net Change in Fund Cash Balances</i>	1,068,900
<i>Fund Cash Balances, January 1</i>	<u>2,853,693</u>
<i>Fund Cash Balances, December 31</i>	<u>\$3,922,593</u>

See accompanying notes to the financial statements

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 1 - Reporting Entity

The City of Port Clinton, Ottawa County, Ohio (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, emergency medical services, and police services.

Public Entity Risk Pool

The City participates in the 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 (regulatory cash basis) for all governmental fund types, and a combined statement of receipts, disbursements and changes in fund balances (regulatory cash basis) for the proprietary fund type, 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 to expenditure for specified purposes other than debt service or capital projects. The City had the following significant Special Revenue Funds:

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.

Street Construction Maintenance Fund The street construction maintenance fund accounts for and reports the receipt of intergovernmental monies for the purpose of providing street maintenance to City residents.

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 2 - Summary of Significant Accounting Policies (continued)

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

Municipal Purposes Fund The municipal purposes fund accounts for and reports special assessments and other monies 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 Revenue Fund The water revenue fund receives charges for services from residents to cover water service costs.

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

Basis of Accounting

Although required by Ohio Administrative Code 117-2-03(B) 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 City 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 each fund be budgeted annually.

Appropriations Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the fund, function, or object level of control and appropriations may not exceed estimated resources. The City Council must annually approve appropriation measures and subsequent amendments. Appropriations lapse at year end.

Estimated Resources Estimated resources include estimates of cash to be received (budgeted receipts) plus 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 canceled, and reappropriated in the subsequent year.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 2 - Summary of Significant Accounting Policies (continued)

A summary of 2023 budgetary activity appears in Note 3.

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.

Pensions/Other Postemployment Benefits (OPEB)

For purposes of measuring the net pension/OPEB liability, 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 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.

Long-Term Obligations

The City's cash basis financial statements do not report liabilities for bonds and other long-term obligations. Proceeds of debt are reported when cash is received and principal and interest payments are reported when paid. Since recording a capital asset when entering into a lease obligation is not the result of a cash transaction, neither another financing source nor a capital outlay expenditure is reported at inception. Lease payments are reported when paid.

Leases

The City is the lessee (as defined by GASB 87) in various leases related to vehicles and other equipment under noncancelable leases. Lease disbursements are recognized when they are paid.

Settlement Monies

Ohio has reached settlement agreements with various distributors of opioids which are subject to the OneOhio memorandum of understanding. The original settlement was reached in 2021 with annual payments anticipated through 2038. For 2023, distributions of \$5,003 are reflected as intergovernmental revenue in the OneOhio settlement Special Revenue Fund in the accompanying financial statements.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 2 - Summary of Significant Accounting Policies (continued)

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. For regulatory purposes nonspendable fund balance includes unclaimed monies that are required to be held for five years before they may be utilized by the City and the nonexpendable portion of the corpus in permanent funds.

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.

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. For regulatory purposes, assigned fund balance in the general fund is limited to encumbrances outstanding at year end.

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.

For regulatory purposes, limited disclosure related to fund balance is included in Note 11.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 3 - Budgetary Activity

Budgetary activity for the year ended December 31, 2023 follows:

2023 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$5,380,268	\$5,311,583	\$(68,685)
Special Revenue	2,487,190	2,547,769	60,579
Capital Projects	308,400	177,669	(130,731)
Enterprise	7,034,220	6,696,093	(338,127)
Total	<u>\$15,210,078</u>	<u>\$14,733,114</u>	<u>\$(476,964)</u>

2023 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$8,469,517	\$5,214,339	\$3,255,178
Special Revenue	3,641,862	2,718,523	923,339
Capital Projects	461,282	386,431	74,851
Enterprise	7,496,579	5,627,193	1,869,386
Total	<u>\$20,069,240</u>	<u>\$13,946,486</u>	<u>\$6,122,754</u>

Note 4 - Deposits

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. The Ohio Revised Code prescribes allowable deposits and investments. A summary of the City's deposit accounts is as follows:

	2023
Demand deposits	\$6,265,214
Certificate of deposits	888,118
Total deposits	<u>\$7,153,332</u>

The City does not use a separate payroll clearing account. The expenditures included in the accompanying financial statement reflect net payroll plus all remitted payroll withholdings. At December 31, 2023, the City is holding no unremitted employee payroll withholdings.

Deposits are insured by the Federal Depository Insurance Corporation, collateralized by securities specifically pledged by the financial institution to the City, or collateralized through 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.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

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.

Income Taxes

The City levies a municipal income tax of 1.5% 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

Risk Pool Membership

The City belongs to the Ohio Plan Risk Management, Inc. (OPRM) (the Plan), an 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.

Effective November 1, 2016, the OPRM elected to participate in a property loss corridor deductible. The property corridor includes losses paid between 70% and 75%. In 2018, the casualty loss corridor was eliminated and the property corridor was adjusted to losses paid between 65% and 70%. Effective November 1, 2019, the property loss corridor was adjusted to losses between 60% and 67.5% and has remain unchanged. OPRM had 801 members as of December 31, 2023.

The Plan's audited financial statements conform with accounting principles generally accepted in the United States of America, with the exception of a qualified opinion related to recording premiums and membership fees earned in full as of December 31, 2023. Those premiums and fees should be earned pro-rata over the individual coverage and membership periods of each policy. The financial statements reported the following assets, liabilities and equity at December 31, 2023:

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 6 - Risk Management (continued)

Assets	\$23,113,696
Liabilities	<u>(16,078,587)</u>
Members Equity	<u><u>\$ 7,035,109</u></u>

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

Note 7 - Defined Benefit Pension Plans

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

Net Pension Liability/Net OPEB Liability

Pensions and OPEB 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 net pension liability and the net OPEB liability represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost-of-living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting 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/OPEB are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability. Resulting adjustments to the net pension/OPEB liability would be effective when the changes are legally enforceable. The Ohio Revised Code permits, but does not require the retirement systems to provide health care to eligible benefit recipients.

The net pension/OPEB liability is not reported on the face of the financial statements, but rather are disclosed in the notes because of the use of the regulatory cash basis framework.

The remainder of this note includes the pension disclosures. See Note 8 for the OPEB disclosures.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

Plan Description - Ohio Public Employees Retirement System (OPERS)

Plan Description - City employees, other than full-time police, participate in the Ohio Public Employees Retirement System (OPERS). OPERS is a cost-sharing, multiple employer public employee retirement system which 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 combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan. Effective January 1, 2022, new members may no longer select the Combined Plan, and current members may no longer make a plan change to this plan. Participating employers are divided into state, local, law enforcement and public safety divisions. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. 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 in the traditional and combined plans 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 and combined plans as per the reduced benefits adopted by SB 343 (see OPERS Annual Comprehensive Financial Report referenced above for additional information, including requirements for reduced and unreduced benefits):

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City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

Group A	Group B	Group C
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
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
Traditional Plan 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	Traditional Plan 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	Traditional Plan Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 35
Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	Combined Plan Formula: 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35
Public Safety	Public Safety	Public Safety
Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 52 with 25 years of service credit or Age 56 with 15 years of service credit
Law Enforcement	Law Enforcement	Law Enforcement
Age and Service Requirements: Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 52 with 15 years of service credit	Age and Service Requirements: Age 48 with 25 years of service credit or Age 56 with 15 years of service credit
Public Safety and Law Enforcement	Public Safety and Law Enforcement	Public Safety and Law Enforcement
Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25	Traditional Plan Formula: 2.5% of FAS multiplied by years of service for the first 25 years and 2.1% for service years in excess of 25

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.

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Notes to the Financial Statements
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Note 7 - Defined Benefit Pension Plans (continued)

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount. The initial amount of a member's pension benefit is vested upon the receipt of the initial benefit payment.

Once a traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost-of-living adjustment (COLA). This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those who retired prior to January 7, 2013, the COLA is 3%. For those retiring on or after 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%.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20% each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of the benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options. When members choose to annuitize their defined contribution benefit, the annuitized portion of the benefit is reclassified to a defined benefit.

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

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City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

	State and Local			
	Traditional Plan	Combined Plan	Public Safety	Law Enforcement
2023 Statutory Maximum Contributions Rates				
Employer	14.0%	14.0%	18.1%	18.1%
Employee *	10.0%	10.0%	**	***
2023 Actual Contribution Rates				
Employer:				
Pension ****	14.0%	12.0%	18.1%	18.1%
Post-employment Health Care Benefits ****	0.0%	0.0%	0.0%	0.0%
Total Employer	14.0%	14.0%	18.1%	18.1%
Employee	10.0%	10.0%	12.0%	13.0%

* Member Contribution within the combined plan are not used to fund the defined benefit retirement allowance

** This rate is determined by OPERS Board and has no maximum rate established by ORC

*** This rate is also determined by OPERS Board, but is limited by ORC to not more than 2% greater than the Public Safety rate.

**** These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4% for health care with the remainder going to pension.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2023, the City's contractually required contribution was \$386,272.

Plan Description - Ohio Police & Fire Pension Fund (OP&F)

Plan Description - City full-time police participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F 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. OP&F issues a publicly available financial report that includes financial information and required supplementary information and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

City of Port Clinton
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Notes to the Financial Statements
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Note 7 - Defined Benefit Pension Plans (continued)

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.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5% for each of the first 20 years of service credit, 2.0% for each of the next five years of service credit and 1.5% for each year of service credit in excess of 25 years. The maximum pension of 72% of the allowable average annual salary is paid after 33 years of service credit (see OPF Annual Comprehensive Financial Report referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

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, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

The COLA amount for members who have 15 or more years of service credit as of July 1, 2013, and members who are receiving a pension benefit that became effective before July 1, 2013, will be equal to 3.0% of the member's base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3.0% or the percentage increase in the consumer price index, if any, over the twelve-month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Members who retired prior to July 24, 1986, or their surviving beneficiaries under optional plans are entitled to cost-of-living allowance increases. The annual increase is paid on July 1st of each year. The annual COLA increase is \$360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

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

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

	<u>Police</u>
2023 Statutory Maximum Contributions Rates	
Employer	19.50%
Employee	12.25%
2023 Actual Contribution Rates	
Employer:	
Pension	19.00%
Post-employment Health Care Benefits	<u>0.50%</u>
Total Employer	<u>19.50%</u>
Employee	<u>12.25%</u>

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$228,008 for 2023.

Pension Liability

The net pension liability for OPERS was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2022, and was determined by rolling forward the total pension liability as of January 1, 2022, to December 31, 2022. 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 and pension expense:

	OPERS	OP&F	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.01924100%	0.03810960%	
Prior Measurement Date	<u>0.01814700%</u>	<u>0.03927740%</u>	
Change in Proportionate Share	<u>0.00109400%</u>	<u>-0.00116780%</u>	
Proportionate Share of the Net Pension Liability	\$5,683,800	\$3,620,043	\$9,303,842

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.

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

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, 2022, using the following actuarial assumptions and methods applied to all periods included in the measurement in accordance with the requirements of GASB 67:

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	2.75 percent	2.75 percent
Future Salary Increases, including inflation	2.75 to 10.75 percent including wage inflation	2.75 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3.0 percent, simple	3.0 percent, simple
Post-January 7, 2013 Retirees	3.0 percent, simple through 2023, then 2.05 percent, simple	3.0 percent, simple through 2023, then 2.05 percent, simple
Investment Rate of Return	6.9 percent	6.9 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

For 2022, pre-retirement mortality rates are based on 130 percent of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170 percent of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115 percent of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

During 2022, 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 of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 12.1% for 2022.

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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The long-term expected 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. Best estimates of geometric rates of return were provided by the Board's investment consultant. For each major class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2022, these best estimates are summarized below:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	22.00%	2.62%
Domestic Equities	22.00%	4.60%
Real Estate	13.00%	3.27%
Private Equity	15.00%	7.53%
International Equities	21.00%	5.51%
Risk parity	2.00%	4.37%
Other investments	5.00%	3.27%
Total	<u>100.00%</u>	

Discount Rate The discount rate used to measure the total pension liability for the current year was 6.9% for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the 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 for the traditional pension plan, combined plan, and member-directed plan was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the 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 6.9%, 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 (5.9%) or one-percentage-point higher (7.9%) than the current rate:

	1% Decrease (5.9%)	Discount Rate (6.9%)	1% Increase (7.9%)
City's proportionate share of the net pension liability	\$8,514,167	\$5,683,800	\$3,329,449

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

Actuarial Assumptions - OP&F

OP&F's total pension liability as of December 31, 2022, is based on the results of an actuarial valuation date of January 1, 2022, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value 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. Assumptions considered are: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2022, are presented below.

Valuation Date	January 1, 2022, with actuarial liabilities rolled forward to December 31, 2022
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.5 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	3.25 percent per annum, compounded annually, consisting of inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	2.2 percent simple per year

For 2022, mortality for service retirees is based on the Pub-2010 Below-Median Safety Amount-Weighted Healthy Retiree mortality table with rates adjusted by 96.2 percent for males and 98.7 percent for females. All rates are projected using the MP-2021 Improvement Scale.

For 2022, mortality for disabled retirees is based on the Pub-2010 Safety Amount-Weighted Disabled Retiree mortality table with rates adjusted by 135 percent for males and 97.9 percent for females. All rates are projected using the MP-2021 Improvement Scale.

For 2022, mortality for contingent annuitants is based on the Pub- 2010 Below-Median Safety Amount-Weighted Contingent Annuitant Retiree mortality table with rates adjusted by 108.9 percent for males and 131 percent for females. All rates are projected using the MP-2021 Improvement Scale.

For 2022, Mortality for active members is based on the Pub-2010 Below-Median Safety Amount-Weighted Employee mortality table. All rates are projected using the MP- 2021 Improvement Scale.

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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

For 2021, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

For 2021, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five-year period ended December 31, 2021.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The assumption is intended to be a long-term assumption (30 to 50 years) and is not expected to change absent a significant change in the asset allocation, a change in the underlying inflation assumption, or a fundamental change in the market that alters expected returns in future years.

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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 7 - Defined Benefit Pension Plans (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2022, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	18.60	4.80 %
Non-US Equity	12.40	5.50
Private Markets	10.00	7.90
Core Fixed Income *	25.00	2.50
High Yield Fixed Income	7.00	4.40
Private Credit	5.00	5.90
U.S. Inflation Linked Bonds*	15.00	2.00
Midstream Energy Infrastructure	5.00	5.90
Real Assets	8.00	5.90
Gold	5.00	3.60
Private Real Estate	12.00	5.30
Commodities	<u>2.00</u>	3.60
 Total	 <u>125.00</u> %	

Note: Assumptions are geometric.

* levered 2.5x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F'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 1.25 times due to the application of leverage in certain fixed income asset classes.

Discount Rate For 2022, the total pension liability was calculated using the discount rate of 7.50 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 of 7.50 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.

City of Port Clinton
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Notes to the Financial Statements
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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 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 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%), or one percentage point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$4,775,533	\$3,620,043	\$2,659,482

Social Security

Several of the City's employees contributed to Social Security. This plan provides retirement benefits, including survivor and disability benefits to participants.

Employees contributed 6.2 percent of their gross salaries. The City contributed an amount equal to 6.2 percent of participants' gross salaries. The City has paid all contributions required through December 31, 2023.

Note 8 - Postemployment Benefits

Net OPEB Liability

See Note 7 for a description of the Net OPEB Liability.

Plan Description - Ohio Public Employees Retirement System (OPERS)

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

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust. The 115 Health Care Trust (115 Trust or Health Care Trust) was established in 2014, under Section 115 of the Internal Revenue Code (IRC). The purpose of the 115 Trust is to fund health care for the Traditional Pension, Combined and Member-Directed plans. Medicare-enrolled retirees in the Traditional Pension and Combined plans may have an allowance deposited into a health reimbursement arrangement (HRA) account to be used toward the health care program of their choice selected with the assistance of an OPERS vendor. Non-Medicare retirees have converted to an arrangement similar to the Medicare-enrolled retirees, and are no longer participating in OPERS provided self-insured group plans.

With one exception, OPERS-provided health care coverage is neither guaranteed nor statutorily required. Ohio law currently requires Medicare Part A equivalent coverage or Medicare Part A premium reimbursement for eligible retirees and their eligible dependents.

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

OPERS offers a health reimbursement arrangement (HRA) allowance to traditional pension plan and combined plan benefit recipients meeting certain age and service credit requirements. The HRA is an account funded by OPERS that provides tax free reimbursement for qualified medical expenses such as monthly post-tax insurance premiums, deductibles, co-insurance, and co-pays incurred by eligible benefit recipients and their dependents.

OPERS members enrolled in the Traditional Pension Plan or Combined Plan retiring with an effective date of January 1, 2022, or after must meet the following health care eligibility requirements to receive an HRA allowance:

Medicare Retirees Medicare-eligible with a minimum of 20 years of qualifying service credit

Non-Medicare Retirees Non-Medicare retirees qualify based on the following age-and-service criteria:

Group A 30 years of qualifying service credit at any age;

Group B 32 years of qualifying service credit at any age or 31 years of qualifying service credit and minimum age 52;

Group C 32 years of qualifying service credit and minimum age 55; or,

A retiree from groups A, B or C who qualifies for an unreduced pension, but a portion of their service credit is not health care qualifying service, can still qualify for health care at age 60 if they have at least 20 years of qualifying health care service credit.

Retirees who don't meet the requirement for coverage as a non-Medicare participant can become eligible for coverage at age 65 if they have at least 20 years of qualifying service. Members with a retirement date prior to January 1, 2022, who were eligible to participate in the OPERS health care program will continue to be eligible after January 1, 2022. Eligible retirees may receive a monthly HRA allowance for reimbursement of health care coverage premiums and other qualified medical expenses. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are provided to eligible retirees, and are deposited into their HRA account. Retirees will have access to the OPERS Connector, which is a relationship with a vendor selected by OPERS to assist retirees participating in the health care program. The OPERS Connector may assist retirees in selecting and enrolling in the appropriate health care plan. When members become Medicare-eligible, recipients enrolled in OPERS health care programs must enroll in Medicare Part A (hospitalization) and Medicare Part B (medical).

OPERS reimburses retirees who are not eligible for premium-free Medicare Part A (hospitalization) for their Part A premiums as well as any applicable surcharges (late-enrollment fees). Retirees within this group must enroll in Medicare Part A and select medical coverage, and may select prescription coverage, through the OPERS Connector. OPERS also will reimburse 50 percent of the Medicare Part A premium and any applicable surcharges for eligible spouses. Proof of enrollment in Medicare Part A and confirmation that the retiree is not receiving reimbursement or payment from another source must be submitted. The premium reimbursement is added to the monthly pension benefit.

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

The health care trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or separation, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

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

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

Funding Policy - The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2023, state and local employers contributed at a rate of 14% of earnable salary and public safety and law enforcement employers contributed at 18.1%. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. For 2023, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and beginning July 1, 2022, there was a 2% allocation to health care for the Combined Plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2023 was 4%; however, effective July 1, 2022, a portion of the health care rate was funded with reserves.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$0 for 2023.

Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment healthcare plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

City of Port Clinton
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Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

OP&F contracted with a vendor who assists eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

Regardless of a benefit recipient's participation in the health care program, OP&F is required by law to pay eligible recipients of a service pension, disability benefit and spousal survivor benefit for their Medicare Part B insurance premium, up to the statutory maximum provided the benefit recipient is not eligible to receive reimbursement from any other source. Once OP&F receives the necessary documentation, a monthly reimbursement is included as part of the recipient's next benefit payment. The stipend provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

OP&F maintains funds for health care in two separate accounts: one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. IRS Code Section 401(h) account is maintained for Medicare Part B reimbursements.

The Ohio Revised Code allows, but does not mandate, OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OP&F website at www.op-f.org or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5% and 24% of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5% of covered payroll for police employer units and 24% of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2023, the portion of employer contributions allocated to health care was 0.5% of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded.

The OP&F Board of Trustees is also authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contractually required contribution to OP&F was \$5,846 for 2023.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

Net OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2021, rolled forward to the measurement date of December 31, 2022, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2022, and was determined by rolling forward the total OPEB liability as of January 1, 2022, to December 31, 2022. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS	OP&F	Total
Proportion of the OPEB Liability:			
Current Measurement Date	0.018797%	0.0381096%	
Prior Measurement Date	0.017757%	0.0392774%	
Change in Proportionate Share	<u>0.001040%</u>	<u>-0.0011678%</u>	
Proportionate Share of the OPEB Liability	\$ 118,609	\$ 271,329	\$ 389,938

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 health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2021, rolled forward to the measurement date of December 31, 2022. The actuarial valuation used the following key actuarial assumptions and methods applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	2.75 percent
Projected Salary Increases,	2.75 to 10.75 percent
	including wage inflation
Single Discount Rate	5.22 percent
Prior Year Single Discount Rate	6.00 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate	4.05 percent
Prior Year Municipal Bond Rate	1.84 percent
Health Care Cost Trend Rate	5.5 percent, initial
	3.50 percent, ultimate in 2036
Actuarial Cost Method	Individual Entry Age

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

Pre-retirement mortality rates are based on 130% of the Pub-2010 General Employee Mortality tables (males and females) for State and Local Government divisions and 170% of the Pub-2010 Safety Employee Mortality tables (males and females) for the Public Safety and Law Enforcement divisions. Post-retirement mortality rates are based on 115% of the PubG-2010 Retiree Mortality Tables (males and females) for all divisions. Post-retirement mortality rates for disabled retirees are based on the PubNS-2010 Disabled Retiree Mortality Tables (males and females) for all divisions. For all of the previously described tables, the base year is 2010 and mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scales (males and females) to all of these tables.

The most recent experience study was completed for the five-year period ended December 31, 2020.

During 2021, 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, if any contributions are made into the plans, the contributions are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made. Health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was 15.6% for 2022.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The 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 rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage, adjusted for inflation. Best estimates of geometric rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Health Care's portfolio's target asset allocation as of December 31, 2022, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)	
		Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Geometric)
Fixed Income	34.00%		2.56%
Domestic Equities	26.00%		4.60%
Real Estate Inveatment Trust	7.00%		4.70%
International Equities	25.00%		5.51%
Risk parity	2.00%		4.37%
Other investments	6.00%		1.84%
Total	100.00%		

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

Discount Rate A single discount rate of 5.22% was used to measure the OPEB liability on the measurement date of December 31, 2022; however, the single discount rate used at the beginning of the year was 6%. 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% and a municipal bond rate of 4.05% (Fidelity Index's "20-Year Municipal GO AA Index"). 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 2054. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2054, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate The following table presents the City's proportionate share of the net OPEB liability (asset) calculated using the single discount rate of 5.22%, as well as what the City's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (4.22%) or one-percentage-point higher (6.22%) than the current rate:

	1% Decrease (4.22%)	Current Discount Rate (5.22%)	1% Increase (6.22%)
City's proportionate share of the net OPEB liability (asset)	\$ 403,384	\$ 118,609	\$ (116,541)

Sensitivity of the City's Proportionate Share of the Net OPEB Asset to Changes in the Health Care Cost Trend Rate Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB asset calculated using the assumed trend rates, and the expected net OPEB asset if it were calculated using a health care cost trend rate that is 1% lower or 1% higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2023 is 5.5%. 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 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 3.5% in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$ 111,090	\$ 118,609	\$ 126,880

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

Actuarial Assumptions - OP&F

OP&F's total OPEB liability as of December 31, 2022, is based on the results of an actuarial valuation date of January 1, 2022, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value 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.

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 and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

Valuation Date	January 1, 2022, with actuarial liabilities rolled forward to December 31, 2022
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	7.5 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	3.25 percent
Blended discount rate:	
Current measurement date	4.27 percent
Prior measurement date	2.84 percent
Cost of Living Adjustments	2.2 percent simple per year
Projected Depletion Year of OPEB Assets	2036

For 2022, mortality for service retirees is based on the Pub-2010 Below-Median Safety Amount-Weighted Healthy Retiree mortality table with rates adjusted by 96.2 percent for males and 98.7 percent for females. All rates are projected using the MP-2021 Improvement Scale.

For 2022, mortality for disabled retirees is based on the Pub-2010 Safety Amount-Weighted Disabled Retiree mortality table with rates adjusted by 135 percent for males and 97.9 percent for females. All rates are projected using the MP-2021 Improvement Scale.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

For 2022, mortality for contingent annuitants is based on the Pub- 2010 Below-Median Safety Amount-Weighted Contingent Annuitant Retiree mortality table with rates adjusted by 108.9 percent for males and 131 percent for females. All rates are projected using the MP-2021 Improvement Scale.

For 2022, mortality for active members is based on the Pub-2010 Below-Median Safety Amount-Weighted Employee mortality table. All rates are projected using the MP- 2021 Improvement Scale.

For 2021, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

For 2021, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Buck Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2021.

The long-term expected rate of return on OPEB 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 expected. 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.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2022, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	18.60 %	4.80 %
Non-US Equity	12.40	5.50
Private Markets	10.00	7.90
Core Fixed Income *	25.00	2.50
High Yield Fixed Income	7.00	4.40
Private Credit	5.00	5.90
U.S. Inflation Linked Bonds*	15.00	2.00
Midstream Energy Infrastructure	5.00	5.90
Real Assets	8.00	5.90
Gold	5.00	3.60
Private Real Estate	12.00	5.30
Commodities	2.00	3.60
 Total	 <u>125.00 %</u>	

Note: Assumptions are geometric.

* levered 2.5x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F'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 the 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.

Discount Rate - For 2022, the total OPEB liability was calculated using the discount rate of 4.27%. For 2021, the total OPEB liability was calculated using the discount rate of 2.84%. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of 7.5%. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, for 2022, a municipal bond rate of 7.5% was applied to periods before December 31, 2035, and the Municipal Bond Index Rate of 3.65 percent was applied to periods on and after December 31, 2035, resulting in a discount rate of 4.27 percent. For 2021, a municipal bond rate of 2.05 percent at December 31, 2021, was blended with the long-term rate of 7.5 which resulted in a blended discount rate of 2.84. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate - Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.27%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.27%), or one percentage point higher (5.27%) than the current rate.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 8 - Postemployment Benefits (continued)

	1% Decrease (3.27%)	Discount Rate (4.27%)	1% Increase (5.27%)
City's proportionate share of the net OPEB liability	\$ 334,117	\$ 271,329	\$ 218,321

Note 9 - Debt

Debt outstanding at December 31, 2023 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
General Obligation Bonds - Governmental	\$ 1,491,000	2.58-4.01%
General Obligation Bonds - Proprietary	1,545,000	2.58-4.01%
OPWC Loans	294,553	0.00%
OWDA Loans	5,380,620	1-4.15%
Financed Purchases	415,504	2.2-3.82%
Total	<u>\$ 9,126,677</u>	

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 revenue and sewer revenue enterprise funds.

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 revenue and sewer revenue 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, sewer interceptor, sanitary sewer and water infrastructure improvements. The loans will be paid from resources of the water revenue, sewer revenue, and infrastructure improvement enterprise funds.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 9 - Debt (continued)

The OPWC and OWDA loans will be paid from the gross revenues of the Water Revenue and Sewer Revenue enterprise funds after provisions for reasonable operating and maintenance expenses, and from property tax revenue from the Infrastructure Improvement enterprise fund. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years. OWDA Sanitary Sewer Infrastructure Improvement loan #9188 and Water Infrastructure Improvement Loan #9187 do not have amortization schedules prepared yet and accordingly are not included in the amortization schedule below. For the year ended December 31, 2023 the balances on those loans were \$176,957 and \$306,310 respectively.

Financed Purchases

The City has entered into several financed purchase agreements for vehicles and sewer pumps. The City disbursed \$249,698 to pay lease costs for the year ended December 31, 2023. Financed purchases will be paid from the fund that maintains custody of the related asset. Future financed purchases payments are included in the below amortization table.

Amortization

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

Year ending December 31:	General Obligation Bonds	OPWC Loans	OWDA Loans	Financed Purchases
2024	\$ 557,384	\$ 23,790	\$ 721,697	\$ 211,078
2025	561,377	16,160	539,181	64,771
2026	494,960	15,139	539,195	53,527
2027	493,740	15,139	539,209	53,527
2028	496,845	15,139	539,224	53,527
2029-2033	826,572	75,694	1,364,605	-
2024-2038	106,999	71,874	621,487	-
2039-2043	-	44,596	622,068	-
2044-2048	-	17,022	227,097	-
2049-2050	-	-	28,660	-
Total	<u>\$3,537,877</u>	<u>\$ 294,553</u>	<u>\$5,742,423</u>	<u>\$ 436,430</u>

Note 10 - Contingent Liabilities

The City is defendant in several lawsuits. Although management cannot presently determine the outcome of these suits, management believes that the resolution of these matters will not materially adversely affect the City's financial condition.

Amounts grantor agencies pay to the City are subject to audit and adjustment by the grantor. The grantor may require refunding and disallowed costs. Management cannot presently determine amounts grantors may disallow. However, based on prior experience, management believes any refunds would be immaterial.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2023

Note 11 - Fund Balances

Included in fund balance are amounts the City cannot spend, including the balance of unclaimed monies, which cannot be spent for five years. At year end, the balance of this amount is as follows:

	<u>Fund Balances</u>	<u>General</u>
Nonspendable:		
Unclaimed Monies		<u>\$21,456</u>

The fund balance of Special Revenue funds is either restricted or committed. The fund balance of Debt Service funds and Capital Projects funds is restricted, committed or assigned.

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65 East Broad Street
Columbus, Ohio 43215
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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**

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

To the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the City of Port Clinton, Ottawa County, Ohio (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements and have issued our report thereon dated March 3, 2025, wherein we issued an adverse opinion on the City's financial statements because the City did not follow accounting principles generally accepted in the United States of America as required by Ohio Admin. Code 117-2-03.

Report on Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2023-003 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings as item 2023-002 to be a significant deficiency.

City of Port Clinton
Ottawa County
Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2023-001.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying schedule of findings. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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



Keith Faber
Auditor of State
Columbus, Ohio

March 3, 2025

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2023**

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING 2023-001

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 Admin. Code § 117-2-03(B), which further clarifies the requirements of Ohio Rev. Code § 117.38, requires the City to file annual financial reports which are prepared using generally accepted accounting principles (GAAP).

As a cost savings measure, the City prepared financial statements in accordance with the regulatory basis of accounting established by the Auditor of State for governmental entities that are not required to prepare reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. The accompanying financial statements and notes omit certain assets, liabilities, deferred inflows/outflows of resources, fund equities/net position, and disclosures that, while presumed material, cannot be determined at this time.

Pursuant to Ohio Rev. Code § 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report. Failure to report on a GAAP basis compromises the City's ability to evaluate and monitor the overall financial condition of the City. To help provide the users with more meaningful financial statements, the City should prepare its annual financial statements according to generally accepted accounting principles.

Officials' Response:

Through careful consideration, the City of Port Clinton has determined that filing an annual report on a cash basis is 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.

FINDING 2023-002

Significant Deficiency - Cash Reconciliation Process Errors

Sound accounting practices require that when designing the public office's system of internal control and the specific control activities, management should ensure adequate security of assets and records, and verify the existence and valuation of assets and liabilities and periodically reconcile them to the accounting records.

The reconciliation of cash (bank) balances to accounting system records (book) is the most basic and primary control process performed. Lack of completing an accurate and timely reconciliation may allow for accounting errors, theft and fraud to occur without timely detection.

FINDING 2023-002
(Continued)

The City Auditor is responsible for reconciling the book (fund) balance to the total bank balance on a monthly basis. The City Auditor has contracted with Charles E. Harris & Associates, Inc. to perform the monthly reconciliation and City Council is responsible for reviewing the reconciliations and related support. Further, an outstanding check list is maintained to account for any checks that have not cleared the bank at the end of the month when the cash reconciliation is completed.

The City contracted with Charles E. Harris & Associates, Inc. to perform bank to book reconciliations throughout the audit period. The reconciliations included numerous reconciling items identified by Charles E. Harris & Associates, Inc. as items posted to the bank accounts but not posted to the accounting system, resulting in a net variance in the amount of \$210,878 between the book balance and the reconciled bank balance. The City Auditor failed to post these items to the accounting system after they were identified by the bank reconciliation process due to deficiencies in the City's internal controls over bank reconciliations. Failure to post monthly reconciling items increases the possibility that the City will not be able to identify, assemble, analyze, classify, and record its transactions correctly or to document compliance with finance related legal and contractual requirements. Further, the lack of properly posting reconciling items to the accounting system increases the risk of theft/fraud over the cash cycle and could lead to inaccurate reporting in the annual financial statements.

In addition, due to deficiencies in the City's internal controls over outstanding checks, at December 31, 2023, the City's bank reconciliation included outstanding checks totaling \$8,415 that were outstanding for more than one year. The failure to adequately monitor the outstanding check list makes the reconciliation process cumbersome and increases the susceptibility that checks may be redeemed by someone other than the intended payee.

The City Auditor should record all transactions and review monthly bank to book cash reconciliations, which include all bank accounts and all fund balances. Variances, such as items posted to the bank accounts but not posted to the accounting system, should be investigated, documented and corrected. In addition, the City Council should review the monthly cash reconciliations including the related support (such as reconciling items) and document the reviews. The City Auditor should also monitor the outstanding check list in order to identify outstanding and stale dated checks. The City Auditor should attempt to contact the payee and, based on information obtained from the payee, determine the appropriate action. Appropriate actions would include, but are not limited to, voiding and reissuing the check or paying the monies into an Unclaimed Monies Fund.

The City Auditor can also refer to Auditor of State Bulletin 91-11 at the following website address for information on unclaimed moneys:

https://ohioauditor.gov/publications/bulletins/_docs/pre1995-Bulletins.pdf

Officials' Response:

The City will adopt policies and procedures so as to provide for timely reconciliations on a monthly basis for all bank accounts and all fund balances and regular monitoring of the outstanding check list with review by City Council.

FINDING 2023-003

Material Weakness - Financial Reporting

In our audit engagement letter, as required by AU-C Section 210, Terms of Engagement, paragraph .06, management acknowledged its responsibility for the preparation and fair presentation of their financial statements; this responsibility includes designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements free from material misstatement, whether due to fraud or error as discussed in AU-C Section 210 paragraphs .A14 & .A16.

General Fund unassigned fund balance in the amount of \$436,104 was reclassified to assigned in accordance with the provisions of Government Accounting Standards Board Statement No. 54 (GASB Cod 1800.165 - .179.

This error was the result of inadequate policies and procedures in reviewing the financial statements and notes to the financial statements. Failure to complete accurate financial statements and notes to the financial statements could lead to the City Council making misinformed decisions. The accompanying financial statements have been adjusted to correct this error. In addition to the adjustment noted above, we also identified financial statement misstatements ranging from \$4,980 to \$126,129 and inconsequential errors and omissions in the notes to the financial statements that we have brought to the City's attention.

The City should adopt policies and procedures, including a final review of the financial statements and notes to the financial statements by the City Auditor and City Council, to help identify and correct errors and omissions.

Officials' Response:

The City will adopt policies and procedures that include a final review of the prepared financial statements and notes to the financial statements by City Council and City Auditor, prior to finalization and submission to help identify and correct any errors and/or omissions in the financial statement.

City of Port Clinton

City Hall Offices



SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2023

Finding Number	Finding Summary	Status	Additional Information
2022-001	Finding was first issued in the 2015 audit. Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03(B) for reporting on a basis other than accounting principles generally accepted in the United States of America.	Not corrected and reissued as Finding 2023-001 in this report.	Through careful consideration, the City of Port Clinton has determined that filing an annual 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.
2022-002	Ohio Rev. Code § 5705.41(B) for expenditures exceeding appropriation.	Fully corrected.	
2022-003	Finding was first issued in the 2020 audit. Material weakness for errors in financial reporting.	Not corrected and reissued as Finding 2023-003 in this report.	This matter was not corrected due to deficiencies in the City's internal controls over financial reporting. The City continues to work on appropriately presenting the financial statements.
2022-004	Significant deficiency for cash reconciliation process errors.	Not corrected and reissued as Finding 2023-002 in this report.	This matter was not corrected due to deficiencies in the City's internal controls over bank reconciliations. The City will adopt policies and procedures so as to provide for timely reconciliations on a monthly basis for all bank accounts and all fund balances and regular monitoring of the outstanding check list with review by City Council.

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OHIO AUDITOR OF STATE KEITH FABER



CITY OF PORT CLINTON

OTTAWA COUNTY

AUDITOR OF STATE OF OHIO CERTIFICATION

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



Certified for Release 3/20/2025

65 East State Street, Columbus, Ohio 43215
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at
www.ohioauditor.gov