

CITY OF PORT CLINTON

OTTAWA COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2017





Dave Yost • Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2017 through December 31, 2017. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

Dave Yost
Auditor of State

September 17, 2018

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CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO
Audit Report
For the Year Ended December 31, 2017

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INDEPENDENT AUDITOR'S REPORT

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

To the Members of City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the cash balances, receipts and disbursements by fund type, and related notes of the City of Port Clinton, Ottawa County, Ohio (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

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

Basis for Adverse Opinion

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

Adverse Opinion

In our opinion, because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, the 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 of Port Clinton, Ottawa County as of December 31, 2017, and the respective changes in financial position or cash flows thereof for the year then ended.

Other Matters

Supplementary Information


Our audit was conducted to opine on the financial statements taken as a whole.

The Schedule of Expenditures of Federal Awards presents additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and is not a required part of the financial statements.

Because of the significance of the matter described in the *Basis for Adverse Opinion* paragraph, it is inappropriate to express and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Charles E. Harris & Associates, Inc.
June 25, 2018

City of Port Clinton
Ottawa County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in
Cash Fund Balances
All Governmental Fund Types
For the Year Ended December 31, 2017

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
Cash Receipts					
Property and Other Local Taxes	\$ 500,417	\$ 254,261	-	\$ 20,161	\$ 774,839
Municipal Income Tax	2,583,387	-	-	-	2,583,387
Intergovernmental	484,471	539,927	-	1,503,623	2,528,021
Special Assessments	-	-	-	53,667	53,667
Charges for Services	34,293	144,214	-	-	178,507
Fines, Licenses and Permits	58,092	1,761	-	-	59,853
Earnings on Investments	1,242	1,060	-	227	2,529
Miscellaneous	64,495	50,327	-	-	114,822
<i>Total Cash Receipts</i>	<u>3,726,397</u>	<u>991,550</u>	<u>-</u>	<u>1,577,678</u>	<u>6,295,625</u>
Cash Disbursements					
Current:					
Security of Persons and Property	2,117,117	367,239	-	98,260	2,582,616
Public Health Services	252,082	-	-	-	252,082
Leisure Time Activities	62,326	-	-	-	62,326
Community Environment	23,094	-	-	-	23,094
Transportation	-	388,150	-	-	388,150
General Government	869,116	55,088	-	-	924,204
Capital Outlay	-	129,702	-	1,737,713	1,867,415
Debt Service:					
Principal Retirement	5,341	40,963	-	92,211	138,515
Interest and Fiscal Charges	16	12,798	-	25,343	38,157
<i>Total Cash Disbursements</i>	<u>3,329,092</u>	<u>993,940</u>	<u>-</u>	<u>1,953,527</u>	<u>6,276,559</u>
<i>Excess of Receipts Over (Under) Disbursements</i>	397,305	(2,390)	-	(375,849)	19,066
Other Financing Receipts (Disbursements)					
Transfers In	-	223,000	-	237,575	460,575
Transfers Out	(460,575)	-	-	-	(460,575)
<i>Total Other Financing Receipts (Disbursements)</i>	<u>(460,575)</u>	<u>223,000</u>	<u>-</u>	<u>237,575</u>	<u>-</u>
<i>Net Change in Fund Cash Balances</i>	(63,270)	220,610	-	(138,274)	19,066
<i>Fund Cash Balances, January 1</i>	<u>456,596</u>	<u>709,535</u>	<u>\$ 37,790</u>	<u>623,650</u>	<u>1,827,571</u>
Fund Cash Balances, December 31					
Nonspendable	21,456	-	-	-	21,456
Restricted	-	930,145	37,790	454,194	1,422,129
Committed	5,210	-	-	31,182	36,392
Unassigned	366,660	-	-	-	366,660
<i>Fund Cash Balances, December 31</i>	<u>\$ 393,326</u>	<u>\$ 930,145</u>	<u>\$ 37,790</u>	<u>\$ 485,376</u>	<u>\$ 1,846,637</u>

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

City of Port Clinton

Ottawa County

*Combined Statement of Cash Receipts, Cash Disbursements and Changes in
Cash Fund Balances*

All Proprietary and Fiduciary Fund Types

For the Year Ended December 31, 2017

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Agency	
Operating Cash Receipts			
Charges for Services	\$ 4,597,517	-	\$ 4,597,517
Fines, Licenses and Permits	15,280	-	15,280
Miscellaneous	81,856	-	81,856
<i>Total Operating Cash Receipts</i>	4,694,653	-	4,694,653
Operating Cash Disbursements			
Personal Services	1,213,246	-	1,213,246
Employee Fringe Benefits	515,602	-	515,602
Contractual Services	1,119,031	-	1,119,031
Supplies and Materials	422,069	-	422,069
Other	4,095	-	4,095
<i>Total Operating Cash Disbursements</i>	3,274,043	-	3,274,043
<i>Operating Income (Loss)</i>	1,420,610	-	1,420,610
Non-Operating Receipts (Disbursements)			
Intergovernmental	1,269	-	1,269
Other Debt Proceeds	486,665	-	486,665
Payroll Deductions	-	\$ 1,155,351	1,155,351
Payment of Payroll Deductions	-	(1,156,607)	(1,156,607)
Capital Outlay	(497,563)	-	(497,563)
Principal Retirement	(985,202)	-	(985,202)
Interest and Other Fiscal Charges	(314,439)	-	(314,439)
<i>Total Non-Operating Receipts (Disbursements)</i>	(1,309,270)	(1,256)	(1,310,526)
<i>Net Change in Fund Cash Balances</i>	111,340	(1,256)	110,084
<i>Fund Cash Balances, January 1</i>	402,643	28,735	431,378
<i>Fund Cash Balances, December 31</i>	\$ 513,983	\$ 27,479	\$ 541,462

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 1 - Reporting Entity

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

Public Entity Risk 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 all proprietary and fiduciary fund types which are organized on a fund type basis.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are presented below:

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

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

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

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

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:

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

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

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

Madison Street Reconstruction Project Fund The Madison Street reconstruction project fund accounts for and reports the receipt of grant funds and other resources restricted for the completion of the project.

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

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

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

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

Basis of Accounting

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 2 - Summary of Significant Accounting Policies (continued)

Budgetary Process

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

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

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

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

A summary of 2017 budgetary activity appears in Note 3.

Deposits and Investments

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

Capital Assets

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

Accumulated Leave

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

Pensions

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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. The City's unclaimed monies are reported as nonspendable.

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

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

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

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

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 3 - Budgetary Activity

Budgetary activity for the year ending December 31, 2017 follows:

2017 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$ 3,694,500	\$ 3,726,397	\$ 31,897
Special Revenue	1,414,723	1,214,550	(200,173)
Debt Service	5,000	-	(5,000)
Capital Projects	1,933,358	1,815,253	(118,105)
Enterprise	4,895,695	5,182,587	286,892

2017 Budgeted vs. Actual Budgetary Basis Disbursements			
Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	\$ 3,881,914	\$ 3,789,667	\$ 92,247
Special Revenue	1,526,318	993,940	532,378
Debt Service	-	-	-
Capital Projects	2,134,566	1,953,527	181,039
Enterprise	5,279,295	5,071,247	208,048

Note 4 – Deposits and Investments

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

	2017
Demand deposits	\$ 1,287,224
Certificates of deposit	1,100,000
Cash on hand	875
Total deposits	\$ 2,388,099

Deposits

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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

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

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

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss. Until November 1, 2016, the OPRM retained 47% of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2016, the OPRM retained 50% of the premium and losses on the first \$250,000 casualty treaty and 30% of the first \$1,000,000 property treaty. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 762 members as of December 31, 2016.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 6 - Risk Management (continued)

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

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

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2016 (latest information available).

	<u>2016</u>
Assets	\$14,765,712
Liabilities	<u>(9,531,506)</u>
Members' Equity	<u>\$ 5,234,206</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

Net Pension Liability

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

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

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

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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

Plan Description – Ohio Public Employees Retirement System (OPERS)

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

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

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
Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	Formula: 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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

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

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

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

	State and Local
2017 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee	10.0 %
2017 Actual Contribution Rates	
Employer:	
Pension	13.0 %
Post-employment Health Care Benefits	1.0 %
Total Employer	14.0 %
Employee	10.0 %

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$291,788 for 2017.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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

Plan Description - City full-time police and firefighters 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.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F 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 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of service credit.

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

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either three percent or the percent increase, if any, in the consumer price index (CPI) over the 12-month period ending on September 30 of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013 is equal to 3 percent of their base pension or disability benefit.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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

	Police	Firefighters
2017 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2017 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50 %	0.50 %
 Total Employer	 19.50 %	 24.00 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$199,108 for 2017.

Net Pension Liability

The net pension liability for OPERS was measured as of December 31, 2016, 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, 2016, and was determined by rolling forward the total pension liability as of January 1, 2016, to December 31, 2016. The City's proportion of the net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

	OPERS	OP&F	
Proportion of the Net Pension Liability:			
Current Measurement Date	0.015084%	0.038280%	
Prior Measurement Date	0.015647%	0.037894%	
Change in Proportionate Share	-0.000563%	0.000386%	
			Total
Proportionate Share of the Net Pension Liability	\$ 3,425,320	\$ 2,424,617	\$ 5,849,937

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.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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, 2016, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. In 2016, the Board's actuarial consultants conducted an experience study for the period 2011 through 2015, comparing assumptions to actual results. The experience study incorporates both a historical review and forward-looking projections to determine the appropriate set of assumptions to keep the plan on a path toward full funding. Information from this study led to changes in both demographic and economic assumptions, with the most notable being a reduction in the actuarially assumed rate of return from 8.0% down to 7.5%, for the defined benefit investments. Key methods and assumptions used in the latest actuarial valuations are presented below.

Wage Inflation	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
COLA or Ad Hoc COLA	3 percent, simple
Investment Rate of Return	7.50 percent
Actuarial Cost Method	Individual Entry Age

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

The most recent experience study was completed for the five year period ended December 31, 2015.

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

OPERS manages investments in four investment portfolios: the Defined Benefits portfolio, the Health Care portfolio, the 115 Health Care Trust portfolio and the Defined Contribution portfolio. The Health Care portfolio was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. The Defined Benefit portfolio includes 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. The Defined Benefit portfolio historically included assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The money weighted rate of return, net of investments expense, for the Defined Benefit portfolio is 8.3 percent for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.75 %
Domestic Equities	20.70	6.34
Real Estate	10.00	4.75
Private Equity	10.00	8.97
International Equities	18.30	7.95
Other investments	18.00	4.92
Total	100.00 %	5.66 %

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent, post-experience study results. 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 contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

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

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$5,232,940	\$3,425,320	\$191,869

Actuarial Assumptions – OPF

OP&F's total pension liability as of December 31, 2016 is based on the results of an actuarial valuation date of January 1, 2016, 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 reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Key methods and assumptions used in calculating the total pension liability in the latest actuarial valuation, prepared as of January 1, 2016, are presented below:

Valuation Date	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.25 percent
Projected Salary Increases	4.25 percent to 11 percent
Payroll Increases	3.75 percent
Inflation Assumptions	3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.60 percent simple for increases based on the lesser of the increase in CPI and 3 percent

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

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

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 7 - Defined Benefit Pension Plans (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expectation. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2016 are summarized below:

Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	16.00	5.21
Non-US Equity	16.00	5.40
Core Fixed Income *	20.00	2.37
Global Inflation Protected *	20.00	2.33
High Yield	15.00	4.48
Real Estate	12.00	5.65
Private Markets	8.00	7.99
Timber	5.00	6.87
Master Limited Partnerships	8.00	7.36
Total	120.00 %	

Note: Assumptions are geometric.

* levered 2x

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 1.2 times due to the application of leverage in certain fixed income asset classes.

Discount Rate The total pension liability was calculated using the discount rate of 8.25 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return 8.25 percent. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

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 8.25 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.25 percent), or one percentage point higher (9.25 percent) than the current rate.

	1% Decrease (7.25%)	Current Discount Rate (8.25%)	1% Increase (9.25%)
City's proportionate share of the net pension liability	\$3,229,302	\$2,424,617	\$1,742,635

Changes between Measurement Date and Report Date

In October 2017, the OP&F Board adopted certain assumption changes which will impact their annual actuarial valuation prepared as of January 1, 2018. The most significant change is a reduction in the discount rate from 8.25 percent to 8 percent. Although the exact amount of these changes is not known, it has the potential to impact the City's net pension liability.

Note 8 - Postemployment Benefits

Ohio Public Employees Retirement System

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, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit post-employment health care trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member-directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45. See OPERS' CAFR referenced below for additional information.

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.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 - Postemployment Benefits (continued)

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. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2017, state and local employers contributed at a rate of 14% of earnable salary. This is the maximum employer contribution rate 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. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1% during calendar year 2017. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2018 decreased to 0% for both plans. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2017 was 4%.

Substantially all of the City's contribution allocated to fund postemployment health care benefits relates to the cost-sharing, multiple-employer trusts. The corresponding contribution for the years ended December 31, 2017 and 2016 was \$20,842 and \$41,047, respectively. The full amount has been contributed for 2017 and 2016.

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 postemployment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to postretirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or statutory survivor benefit, or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 8 - Postemployment Benefits (continued)

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 percent and 24 percent of covered payroll for police and fire employer units, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For 2017, the portion of employer contributions allocated to health care was 0.5 percent 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 and is limited by the provisions of Section 115 and 401(h).

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 contributions to OP&F for the years ended December 31, 2017 and 2016 were \$199,108 and \$178,685, respectively, of which \$4,694 and \$4,212, respectively, was allocated to the health care plan. The full amount has been contributed for 2017 and 2016.

Note 9 – Debt

Debt outstanding at December 31, 2017 was as follows:

	Principal	Interest Rate
General Obligation Bonds - Governmental	\$ 640,000	3.75%
General Obligation Bonds - Proprietary	2,460,000	3.75%
OPWC Loans	307,351	0.00%
OWDA Loan	9,238,853	1-5.54%
Total	\$ 12,646,204	

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – Debt (continued)

General Obligation Bonds

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

OPWC Loans

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

OWDA Loans

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water tower, wastewater treatment plant improvements, Third Street Sewer separation, Second Street water main replacement, Third Street Waterline, Sixth Street water lines, sanitary and storm sewer improvements, water main replacement, water distribution system, and sewer interceptor. The loans will be paid from resources of the Water and Sewer enterprise funds.

The OPWC and OWDA loans will be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years. Certain loans do not have amortization schedules prepared yet.

Leases

The City leases vehicles under noncancelable leases. The City disbursed \$63,515 to pay lease costs for the year ended December 31, 2017. Capital lease obligations will be paid from the fund that maintains custody of the related asset. The City leases several police cruisers, a street sweeper and a sewer truck. The street sweeper payments are split 50/50 between the Special Revenue and the Enterprise fund.

City of Port Clinton
Ottawa County
Notes to the Financial Statements
For the Year Ended December 31, 2017

Note 9 – Debt (continued)

Amortization

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

Year ending December 31:	General Obligation Bonds Governmental	General Obligation Bonds Proprietary	OPWC Loans	OWDA Loans	Capital Leases
2018	\$ 94,406	\$ 284,635	\$ 17,807	\$ 1,030,893	\$ 74,428
2019	92,161	282,435	17,807	981,632	74,428
2020	89,914	285,035	17,807	929,999	74,428
2021	87,668	287,235	17,807	910,077	53,527
2022	85,423	284,035	17,107	890,155	53,527
2023-2027	270,811	1,436,900	20,561	3,350,805	267,636
2028-2032	15,675	287,375	10,189	1,908,339	53,527
2033-2037	-	-	8,915	542,145	-
2038-2042	-	-	-	542,145	-
2043-2047	-	-	-	296,253	-
Total	<u>\$ 736,058</u>	<u>\$ 3,147,650</u>	<u>\$ 128,000</u>	<u>\$ 11,382,443</u>	<u>\$ 651,501</u>

Note 10 – Contingent Liabilities

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

CITY OF PORT CLINTON
OTTAWA COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - Prepared by Management
FOR THE YEAR ENDED DECEMBER 31, 2017

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program / Cluster Title	Federal CFDA Number	Pass Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY ADMINISTRATION			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	20.205	101304	1,447,672
	20.205	98845	<u>53,612</u>
Total U.S. Department of Transportation Federal Highway Administration			<u>1,501,284</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Development Services Agency</i>			
Home Investment Partnerships Program	14.239	A-C-12-2DG-2	<u>19,301</u>
Total U.S. Department of Housing and Urban Development			<u>19,301</u>
U.S. DEPARTMENT OF JUSTICE			
<i>Direct Assistance</i>			
Public Safety Partnership and Community Policing Grants	16.710	N/A	<u>16,809</u>
Total U.S. Department of Justice			<u>16,809</u>
Total Expenditures of Federal Awards			<u><u>\$1,537,394</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Prepared by Management
2 CFR 200.510(b)(6)
FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE A – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City of Port Clinton (the City) under programs of the federal government for the year ended December 31, 2017. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The City has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) AND HOME INVESTMENT PARTNERSHIPS PROGRAM (HOME) GRANT PROGRAMS WITH REVOLVING LOAN CASH BALANCE

The City has a revolving loan fund (RLF) program to lend money to eligible persons to rehabilitate homes, for rental housing rehabilitation, and rental assistance. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Development Services Agency. The initial loan of this money would be recorded as a disbursement on the accompanying Schedule. Loans for rehabilitation are typically forgiven over a period of time unless a death and/or sale occurs during the time period. Loans repaid are considered program income. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans, but are also included as disbursements on the Schedule.

The current cash balance on the City's local program income account as of December 31, 2017 is \$5,657.

NOTE D - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

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

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

To the Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the cash balances, receipts and disbursements by fund type of the City of Port Clinton, Ottawa County, Ohio (the City) as of and for the year ended December 31, 2017, and the related notes to the financial statements and have issued our report thereon dated June 25, 2018, wherein we issued an adverse opinion because the City followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-0-03(D) permit rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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 2017-001.


We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated June 25, 2018.

City's Response to Finding

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Charles E. Harris and Associates, Inc.
June 25, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

To the Members of City Council:

Report on Compliance for The Major Federal Program

We have audited the City of Port Clinton, Ottawa County, Ohio's (the City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2017. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Port Clinton, Ottawa County, Ohio complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2017.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Charles E. Harris & Associates, Inc.
June 25, 2018

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2017**

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Adverse
(d)(1)(ii)	Were there any material weaknesses in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material weaknesses in internal control reported for major federal programs?	No
(d)(1)(iv)	Were there any significant deficiencies in internal control reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unmodified
(d)(1)(vi)	Are there any reportable findings under 2 CFR § 200.516(a)?	No
(d)(1)(vii)	Major Programs (list):	Highway Planning and Construction – CFDA # 20.205
(d)(1)(viii)	Dollar Threshold: Type A/B Programs	Type A: > \$ 750,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee under 2 CFR §200.520?	No

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
2 CFR § 200.515
DECEMBER 31, 2017**

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

Finding Number 2017-001 – Noncompliance Citation

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

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

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

Management's Response:

See Corrective Action Plan.

3. FINDINGS FOR FEDERAL AWARDS

None

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
December 31, 2017**

Finding Number	Finding Summary	Status	Additional Information
2016-001	Noncompliance: Ohio Rev. Code § 117.38 and Ohio Admin. Code § 117-2-03 (B) Reporting financial statements according to GAAP.	Not Corrected	Repeated as Finding 2017-001
2016-002	Noncompliance: Ohio Rev. Code § 5705.10(H) Negative fund balances at year end.	Corrective Action Taken and Finding is Fully Corrected	

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2017**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2017-001	Through careful consideration, the City of Port Clinton has determined that filing an annual financial report on a cash accounting basis is a more cost-effective methodology and provides a clearer overview of the City's complete financial operations. The City will continue to explore methodologies that will allow the City to report on a generally accepted accounting principles (GAAP) based on financial resource availability.	N/A	Cole D. Hatfield, Auditor



Dave Yost • Auditor of State

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 27, 2018**