CITY OF PORT CLINTON

OTTAWA COUNTY, OHIO

AUDIT REPORT

For the Year Ended December 31, 2018

Charles E. Harris & Associates, Inc.
CPAs and Government Consultants

OHIO AUDITOR OF STATE
KEITH FABER

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City of Council
City of Port Clinton
1868 East Perry St.
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, 2018 through December 31, 2018. 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.

Keith Faber
Auditor of State
Columbus, Ohio

July 2, 2019

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CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO
Audit Report
For the Year Ended December 31, 2018

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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, 2018, 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 such opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe 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, 2018, and the respective changes in financial position or cash flows thereof for the year then ended.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2019, 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

Charles E. Harris & Associates, Inc.
June 20, 2019

City of Port Clinton
Ottawa County
Combined Statement of Cash Receipts, Cash Disbursements and Changes in
Fund Balances (Regulatory Cash Basis)
All Governmental Fund Types
For the Year Ended December 31, 2018

	Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)
Cash Receipts					
Property and Other Local Taxes	$ 331,555	$ 255,318	-	$ 20,161	$ 607,034
Municipal Income Tax	2,580,705	-	-	-	2,580,705
Intergovernmental	638,549	441,397	-	480,492	1,560,438
Special Assessments	-	-	-	7,555	7,555
Charges for Services	52,308	150,098	-	-	202,406
Fines, Licenses and Permits	62,628	1,152	-	-	63,780
Earnings on Investments	4,221	7,178	-	1,235	12,634
Miscellaneous	84,577	102,316	-	4,600	191,493
Total Cash Receipts	3,754,543	957,459	-	514,043	5,226,045
Cash Disbursements					
Current:					
Security of Persons and Property	2,108,192	466,465	-	98,040	2,672,697
Public Health Services	261,020	-	-	-	261,020
Leisure Time Activities	52,974	-	-	-	52,974
Community Environment	14,673	-	-	-	14,673
Transportation	-	401,297	-	-	401,297
General Government	1,163,633	15,175	-	-	1,178,808
Capital Outlay	-	341,706	-	704,414	1,046,120
Debt Service:					
Principal Retirement	26,379	41,906	-	103,861	172,146
Interest and Fiscal Charges	1,178	11,621	-	30,022	42,821
Total Cash Disbursements	3,628,049	1,278,170	-	936,337	5,842,556
Excess of Receipts Over (Under) Disbursements	126,494	(320,711)	-	(422,294)	(616,511)
Other Financing Receipts (Disbursements)					
Other Debt Proceeds	640,000	-	-	531,251	1,171,251
Transfers In	-	140,500	-	235,445	375,945
Transfers Out	(375,945)	-	-	-	(375,945)
Total Other Financing Receipts (Disbursements)	264,055	140,500	-	766,696	1,171,251
Net Change in Fund Cash Balances	390,549	(180,211)	-	344,402	554,740
Fund Cash Balances, January 1	393,326	930,145	$ 37,790	485,376	1,846,637
Fund Cash Balances, December 31					
Nonspendable	21,456	-	-	-	21,456
Restricted	-	749,934	37,790	798,596	1,586,320
Committed	6,989	-	-	31,182	38,171
Unassigned	755,430	-	-	-	755,430
Fund Cash Balances, December 31	$ 783,875	$ 749,934	$ 37,790	$ 829,778	$ 2,401,377

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 Fund Balances (Regulatory Cash Basis)
All Proprietary and Fiduciary Fund Types
For the Year Ended December 31, 2018

	Proprietary Fund Type	Fiduciary Fund Type	Totals
	Enterprise	Agency	(Memorandum Only)
Operating Cash Receipts			
Charges for Services	$ 4,796,503	-	$ 4,796,503
Fines, Licenses and Permits	14,994	-	14,994
Miscellaneous	91,463	8,500	99,963
Total Operating Cash Receipts	4,902,960	8,500	4,911,460
Operating Cash Disbursements			
Personal Services	1,269,099	-	1,269,099
Employee Fringe Benefits	565,585	-	565,585
Contractual Services	1,233,093	-	1,233,093
Supplies and Materials	690,332	-	690,332
Other	487	8,500	8,987
Total Operating Cash Disbursements	3,758,596	8,500	3,767,096
Operating Income (Loss)	1,144,364	-	1,144,364
Non-Operating Receipts (Disbursements)			
Other Debt Proceeds	400,000	-	400,000
Payroll Deductions	-	$ 1,039,147	1,039,147
Payment of Payroll Deductions	-	(1,054,080)	(1,054,080)
Capital Outlay	(47,863)	-	(47,863)
Principal Retirement	(1,029,060)	-	(1,029,060)
Interest and Other Fiscal Charges	(295,510)	-	(295,510)
Total Non-Operating Receipts (Disbursements)	(972,433)	(14,933)	(987,366)
Net Change in Fund Cash Balances	171,931	(14,933)	156,998
Fund Cash Balances, January 1	513,983	27,479	541,462
Fund Cash Balances, December 31	$ 685,914	$ 12,546	$ 698,460

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

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.

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 Funds:

> ***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 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).

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 2018 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.

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.

Note 3 - Budgetary Activity

Budgetary activity for the year ended December 31, 2018 follows:

2018 Budgeted vs. Actual Receipts

Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	$ 6,908,350	$ 4,394,543	$ (2,513,807)
Special Revenue	1,565,850	1,097,959	(467,891)
Debt Service	5,000	-	(5,000)
Capital Projects	1,313,771	1,280,739	(33,032)
Enterprise	4,965,200	5,302,960	337,760

2018 Budgeted vs. Actual Budgetary Basis Disbursements

Fund Type	Appropriation Authority	Budgetary Disbursements	Variance
General	$ 6,443,568	$ 4,003,994	$ 2,439,574
Special Revenue	2,232,607	1,278,170	954,437
Debt Service	-	-	-
Capital Projects	991,467	936,337	55,130
Enterprise	5,186,725	5,131,029	55,696

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:

	2018
Demand deposits	$ 1,999,837
Certificates of deposit	500,000
Savings	600,000
Total deposits	$ 3,099,837

Deposits

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.

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 and 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 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. Effective November 1, 2017, the OPRM retained 47% 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 764 members as of December 31, 2017 (the latest information available).

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.

Note 6 - Risk Management (continued)

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, 2017 (latest information available).

Assets	$14,853,620
Liabilities	(9,561,108)
Members' Equity	$ 5,292,512

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 and 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.

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 Statements No. 68 and 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 healthcare to eligible benefit recipients.

The net pension and OPEB liability is disclosed as a commitment and not reported on the face of the financial statements as a liability because of the use of the cash basis framework.

Note 7 - Defined Benefit Pension Plans (continued)

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

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

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

Note 7 - Defined Benefit Pension Plans (continued)

When a traditional plan 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. Members retiring under the combined plan receive a cost–of–living adjustment of the defined benefit portion of their pension benefit. 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.

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 percent 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 purchase of a monthly defined benefit annuity from OPERS (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.

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

Note 7 - Defined Benefit Pension Plans (continued)

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

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

** 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 percent 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 2018, The City's contractually required contribution was $297,822 for all plans.

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.

Note 7 - Defined Benefit Pension Plans (continued)

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 (see OP&F CAFR 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 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, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will receive a COLA equal to a percentage of the member's base pension benefit where the percentage is the lesser of three percent or the percentage increase in the consumer price index, if any, over the 12 month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

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

	Police	Firefighters
2018 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
2018 Actual Contribution Rates		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50 %	0.50 %
Total Employer	19.50 %	24.00 %
Employee:	12.25 %	12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City of Port Clinton's contractually required contribution to OP&F was $180,196 for 2018.

Note 7 - Defined Benefit Pension Plans (continued)

Net Pension Liability

The net pension liability for OPERS was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2017, and was determined by rolling forward the total pension liability as of January 1, 2017, to December 31, 2017. 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 of the City's defined benefit pension plans:

	OPERS	OP&F	Total
Proportion of the Net Pension Liability:			
Current Measurement Date	0.014732%	0.039215%	
Prior Measurement Date	0.015084%	0.038280%	
Change in Proportionate Share	-0.000352%	0.000935%	
Proportionate Share of the Net Pension Liability	$ 2,311,165	$ 2,406,802	$ 4,717,967

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2017, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2017, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre 1/7/2013 retirees	3 percent, simple	3 percent, simple
Post 1/7/2013 retirees	3 percent, simple through 2018 then 2.15 percent, simple	3 percent, simple through 2018 then 2.15 percent, simple
Investment Rate of Return	7.50 percent	7.50 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

Note 7 - Defined Benefit Pension Plans (continued)

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

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

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

During 2017, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was 16.82% for 2017.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

Note 7 - Defined Benefit Pension Plans (continued)

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

Discount Rate The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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/asset 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	$4,104,041	$2,311,165	$816,447

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, 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. Assumptions considered were: 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.

Note 7 - Defined Benefit Pension Plans (continued)

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2017, compared with January 1, 2016, are presented below.

	January 1, 2017	January 1, 2016
Valuation Date	1/1/2017 with actuarial liabilities rolled forward to December 31, 2017	1/1/2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8 percent	8.25 percent
Projected Salary Increases	3.75 percent - 10.50 percent	4.25 percent - 11 percent
Payroll Increases	3.25 percent	3.25 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

For the January 1, 2017, valuation, 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 Conduent 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 the January 1, 2017, valuation, 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 Conduent 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

For the January 1, 2016 valuation, rates of death were 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.

Note 7 - Defined Benefit Pension Plans (continued)

The most recent experience study was completed for the five-year period ended December 31, 2016, the prior experience study was completed December 31, 2011.

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 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. 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, 2017, 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 Securities*	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 For 2017, the total pension liability was calculated using the discount rate of 8.00 percent. The discount rate used for 2016 was 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 8.00 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.

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 8.0 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 (7.0 percent), or one percentage point higher (9.0 percent) than the current rate.

	1% Decrease (7.0%)	Current Discount Rate (8.0%)	1% Increase (9.0%)
City's proportionate share of the net pension liability	$3,336,458	$2,406,802	$1,648,582

Note 8 - Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – OPERS administers three separate pension plans: The Traditional Pension plan – a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan – a defined contribution plan; and the Combined Plan – a cost sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

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

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have 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 75. 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.

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, health care is not being funded.

Note 8 - Postemployment Benefits (continued)

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2018, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 1.0 percent 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 percent 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 2018 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was $0 for 2018.

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. OP&F provides health care benefits including coverage for medical, prescription drug, dental, vision, and Medicare Part B Premium 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. 75.

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.

Note 8 - Postemployment Benefits (continued)

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. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. There is 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. An Internal Revenue Code 401(h) account is maintained for Medicare Part B reimbursements.

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 2018, 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 Sections 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.

Beginning January 1, 2019, OP&F is changing its retiree health care model and the current self-insured health care plan will no longer be offered. In its place is a stipend-based health care model. A stipend funded by OP&F will be placed in individual Health Reimbursement Accounts that retirees will use to be reimbursed for health care expenses.

The City's contractually required contribution to OP&F was $4,749 for 2018.

Net OPEB Liability

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2016, rolled forward to the measurement date of December 31, 2017, 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, 2017, and was determined by rolling forward the total OPEB liability as of January 1, 2017, to December 31, 2017. 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:

Note 8 - Postemployment Benefits (continued)

	OPERS	OP&F	Total
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.014670%	0.0392150%	
Prior Measurement Date	0.014732%	0.0382800%	
Change in Proportionate Share	-0.0000620%	0.0009350%	
Proportionate Share of the Net OPEB Liability	$1,593,054	$2,221,867	$3,814,921

Actuarial Assumptions - OPERS

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

Projections of benefits for financial reporting purposes are based on the substantive plan 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, 2016, rolled forward to the measurement date of December 31, 2017. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.85 percent
Prior Measurement date	4.23 percent
Investment Rate of Return	6.50 percent
Municipal Bond Rate	3.31 percent
Health Care Cost Trend Rate	7.5 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

Note 8 - Postemployment Benefits (continued)

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

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

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

The allocation of investment assets with the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2017 and the long-term expected real rates of return:

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

Discount Rate A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. A single discount rate of 4.23 percent was used to measure the OPEB liability on the measurement date of December 31, 2016. 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).

Note 8 - Postemployment Benefits (continued)

This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.50 percent and a municipal bond rate of 3.31 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2034. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2034, and the municipal bond rate was applied to all health care costs after that date.

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate
The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.85 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.85 percent) or one-percentage-point higher (4.85 percent) than the current rate:

	1% Decrease (2.85%)	Current Discount Rate (3.85%)	1% Increase (4.85%)
City's proportionate share of the net OPEB liability	$2,116,441	$1,593,054	$1,169,639

Sensitivity of the City's Proportionate Share of the Net OPEB Liability 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 liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

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

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	$1,524,213	$1,593,054	$1,664,165

Note 8 - Postemployment Benefits (continued)

Actuarial Assumptions – OP&F

OP&F's total OPEB liability as of December 31, 2017, is based on the results of an actuarial valuation date of January 1, 2017, 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 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	1/1/2017 with actuarial liabilities rolled forward to December 31, 2017
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent - 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	3.24 percent
Prior measurement date	3.79 percent
Cost of Living Adjusments	3 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Note 8 - Postemployment Benefits (continued)

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 Conduent 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

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 Conduent 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, 2016, the prior experience study was completed December 31, 2011.

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. 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, 2017, are summarized below:

Note 8 - Postemployment Benefits (continued)

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 Securities *	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 OPEB liability was calculated using the discount rate of 3.24 percent. 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 return 8 percent. 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, a municipal bond rate of 3.16 percent at December 31, 2017 and 3.71 percent at December 31, 2016, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 3.24 percent. The municipal bond rate was determined using the S&P Municipal Bond 20 Year High Grade Rate Index. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until 2025. The long-term expected rate of return on health care investments was applied to projected costs through 2025, 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 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 3.24 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.24 percent), or one percentage point higher (4.24 percent) than the current rate.

Note 8 - Postemployment Benefits (continued)

	1% Decrease (2.24%)	Current Discount Rate (3.24%)	1% Increase (4.24%)
City's proportionate share of the net OPEB liability	$2,777,361	$2,221,867	$1,794,439

Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate Net OPEB liability is sensitive to changes in the health care cost trend rate. The trend rate is the annual rate at which the cost of covered medical services is assumed to increase from the current year to the next year. Beginning in 2017, the per-capita costs are assumed to change by the following percentages each year:

Year	Non-Medicare	Non-AARP	AARP	Rx Drug	Medicare Part B
2017	-0.47%	-2.50%	4.50%	-0.47%	5.20%
2018	7.00%	7.00%	4.50%	7.00%	5.10%
2019	6.50%	6.50%	4.50%	6.50%	5.00%
2020	6.00%	6.00%	4.50%	6.00%	5.00%
2021	5.50%	5.50%	4.50%	5.50%	5.00%
2022	5.00%	5.00%	4.50%	5.00%	5.00%
2023 and Later	4.50%	4.50%	4.50%	4.50%	5.00%

To illustrate the potential impact, the following table presents the net OPEB liability calculated using the current healthcare cost trend current rates as outlined in the table above, a one percent decrease in the trend rates and a one percent increase in the trend rates.

	1% Decrease	Current Rates	1% Increase
City's proportionate share of the net OPEB liability	$1,725,986	$2,221,867	$2,890,146

Note 9 – Debt

Debt outstanding at December 31, 2018 was as follows:

	Principal	Interest Rate
General Obligation Bonds - Governmental	$ 1,640,000	3.75%
General Obligation Bonds - Proprietary	2,670,000	3.75%
OPWC Loans	360,795	0.00%
OWDA Loan	8,416,866	1-5.54%
Total	$ 13,087,661	

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 $71,412 to pay lease costs for the year ended December 31, 2018. 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.

Note 9 – Debt (continued)

Amortization

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

Year ending December 31:	General Obligation Bonds	OPWC Loans	OWDA Loans	Capital Leases
2019	$ 513,342	$ 13,159	$ 513,093	$ 74,428
2020	515,488	26,318	929,999	74,428
2021	512,033	26,318	910,077	53,527
2022	508,179	26,318	890,155	53,527
2023	508,484	24,918	890,155	53,527
2024-2028	2,333,805	72,594	2,984,148	267,636
2029-2033	556,529	55,291	1,493,270	-
2034-2038	-	52,744	542,145	-
2039-2043	-	42,556	542,145	-
2044-2048	-	20,579	187,824	-
Total	$ 5,447,860	$ 360,795	$ 9,883,011	$ 577,073

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.

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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 Members of City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the 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, 2018, and the related notes to the financial statements and have issued our report thereon dated June 20, 2019, wherein we issued and 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 Administrative Code Section 117-0-03(D).

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed an instance of noncompliance or other matter we must report under *Government Auditing Standards,* which is described in the accompanying Schedule of Findings as item 2018-001.

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 20, 2019.

City's Response to Finding

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

Purpose of this Report

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

Charles E Harris Associates

Charles E. Harris and Associates, Inc.
June 20, 2019

SCHEDULE OF FINDINGS
DECEMBER 31, 2018

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

Finding Number 2018-001 – 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.

CITY OF PORT CLINTON
OTTAWA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS – Prepared by Management
December 31, 2018

Finding Number	Finding Summary	Status	Additional Information
2017-001	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 2018-001

CITY OF PORT CLINTON
OTTAWA COUNTY

CORRECTIVE ACTION PLAN – Prepared by Management
December 31, 2018

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2018-001	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

OHIO AUDITOR OF STATE
KEITH FABER

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
JULY 16, 2019

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