

CITY OF PORT CLINTON
Port Clinton, Ohio

FINANCIAL STATEMENTS
December 31, 2005



**Clifton
Gunderson LLP**
Certified Public Accountants & Consultants



Mary Taylor, CPA
Auditor of State

Members of City Council
City of Port Clinton
1868 East Perry Street
Port Clinton, Ohio 43452-1497

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Clifton Gunderson LLP, for the audit period January 1, 2005 through December 31, 2005. 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.

Mary Taylor

Mary Taylor, CPA
Auditor of State

September 10, 2007

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City of Port Clinton
 General Purpose External Financial Statements
 For the Year Ended December 31, 2005

Table of Contents

Table of Contents	1
Independent Auditor’s Report.....	2
General Purpose External Financial Statements	
Management’s Discussion and Analysis.....	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	13
Statement of Activities.....	14
Fund Financial Statements	
Balance Sheet - Governmental Funds	16
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities.....	17
Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Funds	18
Reconciliation of Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to Statement of Activities.....	19
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - General Fund.....	20
Street Maintenance Fund	21
Statement of Fund Net Assets - Proprietary Funds.....	22
Statement of Revenues, Expenses, and Change in Fund Net Assets - Proprietary Funds	23
Statement of Cash Flows - Proprietary Funds.....	24
Statement of Fiduciary Assets and Liabilities - Agency Funds	26
Notes to the Basic Financial Statements	27

Independent Auditor's Report

The Members of City Council
City of Port Clinton
Port Clinton, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial statement audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to reasonably assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financials statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ohio, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Street Maintenance Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

City of Port Clinton
Ottawa County

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2006 on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Henderson LLP

Toledo, Ohio
December 8, 2006

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

The discussion and analysis of the City of Port Clinton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2005 are as follows:

In total, the City's net assets increased \$659,811, or 4.5 percent. The 2.5 percent increase in net assets for governmental activities was not significant but the 7 percent increase for business-type activities was a modest change and related to activities in the Sewer enterprise fund.

During 2005, the City issued bond anticipation notes, in the amount of \$500,000, to acquire a building to house a new fire station and the privately run ambulance service. Beginning in April 2004, the City began a contract with North Central EMS which provides 24-hour/7-day emergency medical services.

With medical costs an ever increasing expense for most employers, the City realized a savings in medical premiums of over \$67,000 for the last half of 2005. In June 2005, the City went from a self-insured program to acquiring insurance from Medical Mutual of Ohio.

The City's Parks and Recreation Department was reorganized in 2005; parks maintenance was moved to the Service Department and recreation moved to City Hall. In 2006, the building which housed the former department will be razed but the area will continue to be used for service department parking.

The City's Water and Sewer enterprise funds both reflect an operating income for 2005. The City increased water and sewer rates by 4 and 7 percent, respectively.

With the hiring of a new engineering firm, Phase 1 of the Wastewater Treatment Plant with Actiflo was completed. Phase 1a has been started in conjunction with Phase 2 (the final phase).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the City of Port Clinton's financial position.

The statement of net assets and the statement of activities provide information about the activities of the City as a whole, presenting both an aggregate and a longer-term view of the City.

Fund financial statements provide a greater level of detail. For governmental funds, these statements tell how services were financed in the short-term and what remains for future spending. Fund financial statements report the City's most significant funds individually and the City's nonmajor funds in a single column. The City's major funds are the General, Street Maintenance, Water, and Sewer funds.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2005. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

These statements report the City's net assets and changes in those assets. This change in net assets is important because it tells the reader whether the financial position of the City as a whole has increased or decreased from the prior year. Over time, these increases and/or decreases are one indicator of whether the financial position is improving or deteriorating. Causes for these changes may be the result of many factors, some financial, some not. Non-financial factors can include changes in the City's property tax base and the condition of the City's capital assets (buildings, streets, etc.). These factors must be considered when assessing the overall health of the City.

In the statement of net assets and the statement of activities, the City is divided into two types of activities:

Governmental Activities - Most of the City's programs and services are reported here, including security of persons and property (police and fire), public health, leisure time activities, community environment, transportation, and general government. These services are primarily funded by property and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.

Business-Type Activities - These services are provided on a charge for services basis and are intended to recover all or most of the costs of the services provided. The City's water and sewer services are reported here.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, Street Maintenance, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

Governmental Funds - The City's governmental funds are used to account for the same programs reported as governmental activities on the government-wide financial statements. Most of the City's basic services are reported in these funds and focus on how money flows into and out of the funds as well as the balances available for spending at year end. These funds are reported on the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services being provided.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities on the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to help make this comparison between governmental funds and governmental activities.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water and sewer operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounted for the City's self-insured program for employee health care benefits. The City discontinued the self-insured program in 2005 and once final settlement has been made with the third-party administrator, this fund will be closed.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from these funds are not available to support the City's programs. These funds use the accrual basis of accounting.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided on the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2005 and 2004.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Assets</u>						
Current and Other Assets	\$4,580,644	\$4,269,891	\$1,479,422	\$1,385,541	\$6,060,066	\$5,655,432
Capital Assets, Net	5,886,089	5,736,794	11,731,813	11,619,501	17,617,902	17,356,295
Total Assets	10,466,733	10,006,685	13,211,235	13,005,042	23,677,968	23,011,727
<u>Liabilities</u>						
Current and Other Liabilities	1,283,177	770,963	159,304	274,392	1,442,481	1,045,355
Long-Term Liabilities	871,363	1,132,934	6,225,317	6,354,442	7,096,680	7,487,376
Total Liabilities	2,154,540	1,903,897	6,384,621	6,628,834	8,539,161	8,532,731
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,791,826	4,869,245	5,590,400	5,349,381	10,382,226	10,218,626
Restricted	1,837,316	1,771,149	0	0	1,837,316	1,771,149
Unrestricted	1,683,051	1,462,394	1,236,214	1,026,827	2,919,265	2,489,221
Total Net Assets	\$8,312,193	\$8,102,788	\$6,826,614	\$6,376,208	\$15,138,807	\$14,478,996

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

As mentioned previously, there was a 2.5 percent increase in net assets for governmental activities and a review of the above table demonstrates only minor changes in assets and net assets. Current and other liabilities increased due to the issuance of bond anticipation notes to acquire and remodel a fire station and long-term liabilities decreased due to the retirement of debt.

Business-type activities had a modest increase in net assets of 7 percent. While the change in total assets and the change in total liabilities were not very large, notice that total assets increased and total liabilities decreased, thus an increase in net assets. The City had amounts due from other governments at year end (primarily OWDA monies for the wastewater treatment plant) and saw increases in accounts receivable due to the utility rate increases. As construction activities were completed on Phase I of the wastewater treatment plant, the liabilities associated with this construction (contracts and retainage payable) were less than the prior year.

Table 2 reflects the change in net assets for 2005 and 2004.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$355,944	\$330,875	\$3,008,456	\$2,715,204	\$3,364,400	\$3,046,079
Operating Grants, Contributions, and Interest	790,775	638,972	0	0	790,775	638,972
Capital Grants and Contributions	39,400	245,000	332,343	657,360	371,743	902,360
Total Program Revenues	<u>1,186,119</u>	<u>1,214,847</u>	<u>3,340,799</u>	<u>3,372,564</u>	<u>4,526,918</u>	<u>4,587,411</u>
General Revenues						
Property Taxes Levied for General Purposes	568,192	717,842	0	0	568,192	717,842
Municipal Income Taxes	2,206,503	2,051,256	0	0	2,206,503	2,051,256
Other Local Taxes	149,964	151,690	0	0	149,964	151,690
Grants and Entitlements not Restricted to Specific Programs	528,917	798,546	0	0	528,917	798,546
Franchise Fees	37,231	37,152	0	0	37,231	37,152
Interest	82,999	23,703	0	0	82,999	23,703
Other	24,957	48,651	30,083	3,818	55,040	52,469
Total General Revenues	<u>3,598,763</u>	<u>3,828,840</u>	<u>30,083</u>	<u>3,818</u>	<u>3,628,846</u>	<u>3,832,658</u>
Total Revenues	<u>4,784,882</u>	<u>5,043,687</u>	<u>3,370,882</u>	<u>3,376,382</u>	<u>8,155,764</u>	<u>8,420,069</u>

(continued)

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Table 2
Change in Net Assets
(continued)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,580,154	1,435,771	0	0	1,580,154	1,435,771
Fire	186,005	271,099	0	0	186,005	271,099
Ambulance	0	35,402	0	0	0	35,402
Public Health	271,628	233,914	0	0	271,628	233,914
Leisure Time Activities	153,697	180,728	0	0	153,697	180,728
Community Environment	194,322	270,101	0	0	194,322	270,101
Transportation	879,684	937,288	0	0	879,684	937,288
General Government	1,235,845	1,260,894	0	0	1,235,845	1,260,894
Interest and Fiscal Charges	54,001	44,338	0	0	54,001	44,338
Water	0	0	1,295,300	1,229,309	1,295,300	1,229,309
Sewer	0	0	1,645,317	1,192,937	1,645,317	1,192,937
Total Expenses	<u>4,555,336</u>	<u>4,669,535</u>	<u>2,940,617</u>	<u>2,422,246</u>	<u>7,495,953</u>	<u>7,091,781</u>
Increase in Net Assets						
Before Transfers	229,546	374,152	430,265	954,136	659,811	1,328,288
Transfers	(20,141)	26,239	20,141	(26,239)	0	0
Increase in Net Assets	<u>209,405</u>	<u>400,391</u>	<u>450,406</u>	<u>927,897</u>	<u>659,811</u>	<u>1,328,288</u>
Net Assets Beginning of Year	8,102,788	7,702,397	6,376,208	5,448,311	14,478,996	13,150,708
Net Assets End of Year	<u>\$8,312,193</u>	<u>\$8,102,788</u>	<u>\$6,826,614</u>	<u>\$6,376,208</u>	<u>\$15,138,807</u>	<u>\$14,478,996</u>

Overall the City had minor changes in revenues for governmental activities in 2005. Program revenues (those which can be directly associated with a particular activity) saw the greatest decrease in capital grants and contributions. In 2004, the City received a \$100,000 grant to construct a dock and \$155,000 for the harbor patrol to purchase patrol boats. Operating grants and contributions increased due to additional grant money available for the City's community development block grant program. A comparison of general revenues illustrates a \$230,000 decrease largely due to a reduction in estate tax revenues.

The City's total expenses illustrate amounts quite comparable to 2004. Safety related activities (police and fire), as expected, continue to account for the greatest portion of the City's expenses (39 percent for 2005). The majority of these costs are police department related since the City has a volunteer fire department. The City's second largest expense (27 percent for 2005) is related to general government costs, those costs primarily associated with running the City (costs consist of the mayor's office, the City auditor and treasurer, the law director, safety service director, income tax department, building and grounds maintenance, insurance, etc).

For business-type activities, program revenues continue to make up over 99 percent of total revenues. This is, of course, charges for services for water and sewer services. Overall revenues were very comparable to the prior year. Expenses, on the other hand, increased over \$500,000. This increase is for non-capitalized costs associated with the wastewater treatment plant construction.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Table 3, indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2005	2004	2005	2004
Security of Persons and Property				
Police	\$1,580,154	\$1,435,771	\$1,458,613	\$1,178,494
Fire	186,005	271,099	95,866	204,624
Ambulance	0	35,402	(10,835)	14,474
Public Health	271,628	233,914	111,941	94,919
Leisure Time Activities	153,697	180,728	74,535	4,558
Community Environment	194,322	270,101	(116,143)	75,565
Transportation	879,684	937,288	469,507	577,776
General Government	1,235,845	1,260,894	1,231,732	1,239,940
Interest and Fiscal Charges	54,001	44,338	54,001	44,338
Total Expenses	<u>\$4,555,336</u>	<u>\$4,669,535</u>	<u>\$3,369,217</u>	<u>\$3,434,688</u>

With general revenues providing for 74 percent of the City's programs, the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As such, the City has devoted more time in tracking down non-filers. As noted above, the City's police and fire operations are substantially funded through general revenues. The same can be said for general government operations. Both the public health and leisure time activities programs benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of cemetery lot sales for public health and sports league fees, parking fees, and concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Street Maintenance special revenue fund. The General Fund experienced a 13 percent increase in fund balance in 2005. The factors influencing this increase include a reduction in medical premiums with the change in the insurance program, a wage freeze implemented with the end of the Teamster Local 20 contract (effective 8/31/05), and a reduction in transfers to subsidize activities in other funds. The Street Maintenance fund had a sizable increase in fund balance; however, this is largely the result of transfers from the General Fund to subsidize operations.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. Although the Sewer fund currently has a positive operating income, this fund is accumulating a significant amount of debt for the major renovations in progress at the wastewater treatment plant. The City has been increasing sewer rates annually. In 2004, there was a 24 percent increase and 4 percent increases both 2005 and 2006.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute. This includes the annual appropriations ordinance which is passed by City Council before April 1 each year. The City operates under a temporary budget for the first three months of each year.

The City's most significant budgeted fund is the General Fund. No modifications were made for any revenue source from the original to final budget. A review of actual revenues demonstrates the estimate for income taxes was less than what was anticipated; however, overall the change for actual revenues was not significantly different from estimates.

Changes were also not significant from original to final budget amounts or from final budget to actual amounts for expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2005, was \$4,791,826 and \$5,590,400, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary addition was construction in progress for the City's new fire station. For business-type activities, there was a decrease in construction in progress and an increase in buildings and improvements for Phase I of the wastewater treatment plant renovations. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2005, the City had \$500,000 in outstanding bond anticipation notes as well as \$586,943 in general obligation bonds and \$129,297 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$114,760 in general obligation bonds, \$282,953 in OPWC loans, and \$5,634,617 in OWDA loans outstanding at year end.

In addition, the City's long-term obligations also include capital leases and compensated absences. For further information regarding the City's long-term obligations, refer to Notes 18 and 19 to the basic financial statements.

CURRENT ISSUES

A key issue in January 2006 was the increase in sewer tap-in fees. This action brought about an effort to compromise on a new development on the west end of the City involving one hundred thirty-two homes. An agreement between the City and the township is still being sought. This agreement would allow the City to run water and sewer lines to the property in exchange for sharing in the income taxes generated by the proposed development's homeowners.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2005

Activities within the City's departments include the following:

- The City's recreation department has been revived under the leadership of Tracy Colston. The department held a public forum in January 2006.
- In February 2006, the City reached an agreement with the Fraternal Order of Police. The contract expired in March 2006.
- Street repairs have been a priority. The City has been using its new durapatcher in combating potholes. A list of repairs has been identified and will be worked on throughout the summer.
- City council has proposed a pier fee structure for boaters. The rate is \$10 per day.

Other positive events for the City include:

- The City has received a grant from the Environmental Protection Agency, in the amount of \$1,157,100, for wastewater treatment plant upgrades.
- The City has put forth its greatest effort to seek developers for a proposed new marina. Over one hundred seventy requests for proposals were sent out across the county to attract developers. A developer's day was held on June 1, 2006, to show off the City to these developers.
- The Mayor held a legislative day in May 2006. Federal and state legislators were given tours of the area.
- It has been announced that a \$1.4 million deal is in the works for the True Land on the waterfront. The Trust for Public Land is trying to acquire this land for the City to revitalize and return it to its natural habitat.
- A new manufacture has moved into the City's industrial park, Zink Inc. The firm produces hunting supplies.

Among the City's concerns are that only a few individuals came to a meeting to discuss the proposed 1.9 mill fire levy. If the levy passes on the November ballot, it will generate \$249,000 per year for five years for the fire department. The department currently has an annual budget of approximately \$165,000 (General Fund budget amount only and does not include debt retirement requirements).

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those interested in our City's financial well being. Questions concerning any of the information provided in this report or requests for additional information should be directed to Nancy O'Neal, City Auditor, 1868 Perry Street, Port Clinton, Ohio 43452.

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City of Port Clinton
Statement of Net Assets
December 31, 2005

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,616,760	\$891,084	\$2,507,844
Cash and Cash Equivalents with Fiscal Agents	123,074	0	123,074
Accounts Receivable	53,533	480,435	533,968
Accrued Interest Receivable	805	0	805
Due from Other Governments	510,640	36,420	547,060
Municipal Income Taxes Receivable	670,898	0	670,898
Other Local Taxes Receivable	2,635	0	2,635
Internal Balances	(31,271)	31,271	0
Prepaid Items	56,851	11,272	68,123
Materials and Supplies Inventory	36,900	28,940	65,840
Property Taxes Receivable	786,094	0	786,094
Notes Receivable	423,311	0	423,311
Special Assessments Receivable	330,414	0	330,414
Nondepreciable Capital Assets	1,108,137	198,550	1,306,687
Depreciable Capital Assets, Net	4,777,952	11,533,263	16,311,215
Total Assets	10,466,733	13,211,235	23,677,968
<u>Liabilities</u>			
Accrued Wages Payable	34,954	11,424	46,378
Accounts Payable	118,626	44,243	162,869
Contracts Payable	4,640	38,888	43,528
Due to Other Governments	93,967	24,000	117,967
Deferred Revenue	527,257	0	527,257
Accrued Interest Payable	3,733	273	4,006
Notes Payable	500,000	0	500,000
Deposits Held and Due to Others	0	40,476	40,476
Long-Term Liabilities			
Due Within One Year	281,221	348,073	629,294
Due in More Than One Year	590,142	5,877,244	6,467,386
Total Liabilities	2,154,540	6,384,621	8,539,161
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt Restricted for	4,791,826	5,590,400	10,382,226
Debt Service	112,362	0	112,362
Capital Projects	311,105	0	311,105
Street Maintenance	217,056	0	217,056
Main Thoroughfare	279,730	0	279,730
CDBG	676,051	0	676,051
Other	241,012	0	241,012
Unrestricted	1,683,051	1,236,214	2,919,265
Total Net Assets	\$8,312,193	\$6,826,614	\$15,138,807

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2005

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,580,154	\$35,413	\$86,128	\$0
Fire	186,005	90,000	139	0
Ambulance	0	10,835	0	0
Public Health	271,628	159,682	5	0
Leisure Time Activities	153,697	39,134	628	39,400
Community Environment	194,322	0	310,465	0
Transportation	879,684	16,767	393,410	0
General Government	1,235,845	4,113	0	0
Interest and Fiscal Charges	54,001	0	0	0
Total Governmental Activities	4,555,336	355,944	790,775	39,400
<u>Business-Type Activities</u>				
Water	1,295,300	1,262,178	0	0
Sewer	1,645,317	1,746,278	0	332,343
Total Business-Type Activities	2,940,617	3,008,456	0	332,343
Total	\$7,495,953	\$3,364,400	\$790,775	\$371,743

General Revenues

Property Taxes Levied for General Purposes
Municipal Income Taxes
Other Local Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Fees
Interest
Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - Restated (See Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,458,613)	\$0	(\$1,458,613)
(95,866)	0	(95,866)
10,835	0	10,835
(111,941)	0	(111,941)
(74,535)	0	(74,535)
116,143	0	116,143
(469,507)	0	(469,507)
(1,231,732)	0	(1,231,732)
(54,001)	0	(54,001)
<u>(3,369,217)</u>	<u>0</u>	<u>(3,369,217)</u>
0	(33,122)	(33,122)
0	433,304	433,304
<u>0</u>	<u>400,182</u>	<u>400,182</u>
<u>(3,369,217)</u>	<u>400,182</u>	<u>(2,969,035)</u>
568,192	0	568,192
2,206,503	0	2,206,503
149,964	0	149,964
528,917	0	528,917
37,231	0	37,231
82,999	0	82,999
24,957	30,083	55,040
<u>3,598,763</u>	<u>30,083</u>	<u>3,628,846</u>
<u>(20,141)</u>	<u>20,141</u>	<u>0</u>
209,405	450,406	659,811
<u>8,102,788</u>	<u>6,376,208</u>	<u>14,478,996</u>
<u>\$8,312,193</u>	<u>\$6,826,614</u>	<u>\$15,138,807</u>

See Independent Auditor's Report

City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2005

	General	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$475,425	\$56,782	\$1,068,119	\$1,600,326
Accounts Receivable	53,533	0	0	53,533
Accrued Interest Receivable	783	0	22	805
Due from Other Governments	265,361	176,243	69,036	510,640
Municipal Income Taxes Receivable	670,898	0	0	670,898
Other Local Taxes Receivable	1,489	0	1,146	2,635
Interfund Receivable	41,717	0	0	41,717
Prepaid Items	49,857	6,447	547	56,851
Materials and Supplies Inventory	19,370	17,530	0	36,900
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	16,434	0	0	16,434
Property Taxes Receivable	786,094	0	0	786,094
Notes Receivable	0	0	423,311	423,311
Special Assessments Receivable	0	0	330,414	330,414
Total Assets	\$2,380,961	\$257,002	\$1,892,595	\$4,530,558
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$28,843	\$6,111	\$0	\$34,954
Accounts Payable	31,007	10,319	77,300	118,626
Contracts Payable	0	0	4,640	4,640
Due to Other Governments	84,939	8,260	768	93,967
Interfund Payable	0	0	41,717	41,717
Deferred Revenue	1,312,868	122,156	340,368	1,775,392
Total Liabilities	1,457,657	146,846	464,793	2,069,296
<u>Fund Balance</u>				
Reserved for Unclaimed Monies	16,434	0	0	16,434
Reserved for Interfund Receivable	38,515	0	0	38,515
Reserved for Notes Receivable	0	0	404,783	404,783
Reserved for Encumbrances	140,595	30,138	56,693	227,426
<u>Unreserved, Reported in</u>				
General Fund	727,760	0	0	727,760
Special Revenue Funds	0	80,018	740,294	820,312
Debt Service Funds	0	0	57,469	57,469
Capital Projects Funds	0	0	168,563	168,563
Total Fund Balance	923,304	110,156	1,427,802	2,461,262
Total Liabilities and Fund Balance	\$2,380,961	\$257,002	\$1,892,595	\$4,530,558

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2005

Total Governmental Fund Balance		\$2,461,262
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		5,886,089
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Accounts Receivable	50,451	
Accrued Interest Receivable	455	
Due from Other Governments	347,524	
Municipal Income Taxes Receivable	260,454	
Property Taxes Receivable	258,837	
Special Assessments Receivable	330,414	
		1,248,135
<p>An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.</p>		(31,271)
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Accrued Interest Payable	(3,733)	
Notes Payable	(500,000)	
General Obligations Bonds Payable	(586,943)	
Special Assessment Bonds Payable	(129,297)	
Capital Leases Payable	(38,699)	
Compensated Absences Payable	(116,424)	
		(1,375,096)
<p>An internal service fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.</p>		123,074
Net Assets of Governmental Activities		\$8,312,193

See Accompanying Notes to the Basic Financial Statements
 See Independent Auditor's Report

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2005

	General	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$512,574	\$0	\$0	\$512,574
Municipal Income Taxes	2,169,224	0	0	2,169,224
Other Local Taxes	158,483	0	16,767	175,250
Special Assessments	0	0	19,219	19,219
Charges for Services	322,793	0	330	323,123
Fees, Licenses, and Permits	41,215	0	0	41,215
Fines and Forfeitures	13,721	0	2,735	16,456
Intergovernmental	581,533	323,082	472,148	1,376,763
Interest	55,568	3,236	49,750	108,554
Other	48,780	3,350	10,004	62,134
Total Revenues	3,903,891	329,668	570,953	4,804,512
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,453,177	0	73,909	1,527,086
Fire	141,319	0	0	141,319
Public Health	253,402	0	0	253,402
Leisure Time Activities	141,085	0	0	141,085
Community Environment	6,372	0	187,624	193,996
Transportation	0	513,922	18,128	532,050
General Government	1,692,951	0	0	1,692,951
Capital Outlay	0	0	194,891	194,891
Debt Service:				
Principal Retirement	41,284	0	216,568	257,852
Interest and Fiscal Charges	5,650	0	47,569	53,219
Total Expenditures	3,735,240	513,922	738,689	4,987,851
Excess of Revenues Over (Under) Expenditures	168,651	(184,254)	(167,736)	(183,339)
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	500,000	0	0	500,000
Transfers In	12,941	220,000	507,254	740,195
Transfers Out	(572,605)	0	(169,590)	(742,195)
Total Other Financing Sources (Uses)	(59,664)	220,000	337,664	498,000
Change in Fund Balance	108,987	35,746	169,928	314,661
Fund Balance Beginning of Year - Restated (See Note 3)	814,317	74,410	1,257,874	2,146,601
Fund Balance End of Year	\$923,304	\$110,156	\$1,427,802	\$2,461,262

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
 Reconciliation of Statement of Revenues, Expenditures,
 and Change in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2005

Change in Fund Balance - Total Governmental Funds \$314,661

Amounts reported for governmental activities on the statement of activities are different because of the following:

Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.

Capital Outlay	508,372	
Capital Contributions	39,400	
Depreciation	<u>(398,477)</u>	149,295

Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.

Property Taxes	55,618	
Municipal Income Taxes	37,279	
Other Local Taxes	(8,519)	
Special Assessments	(19,219)	
Charges for Services	(4,465)	
Fees, Licenses, and Permits	79	
Intergovernmental	(122,257)	
Interest	<u>(49)</u>	(61,533)

Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets. (500,000)

Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities on the statement of net assets.

General Obligation Bonds Payable	176,052	
Special Assessment Bonds Payable	15,945	
Capital Leases Payable	<u>65,855</u>	257,852

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. (782)

Compensated absences reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. 3,719

The internal service fund used by management to charge the cost of health insurance services to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 46,193

Change in Net Assets of Governmental Activities \$209,405

See Accompanying Notes to the Basic Financial Statements
 See Independent Auditor's Report

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$471,000	\$548,950	\$512,574	(\$36,376)
Municipal Income Taxes	2,234,500	2,234,500	2,119,725	(114,775)
Other Local Taxes	150,517	147,000	159,009	12,009
Charges for Services	324,237	363,775	323,848	(39,927)
Fees, Licenses, and Permits	5,427	40,350	41,215	865
Fines and Forfeitures	3,072	11,000	13,538	2,538
Intergovernmental	569,198	577,690	635,450	57,760
Interest	20,581	20,100	53,431	33,331
Other	223,468	58,635	47,078	(11,557)
Total Revenues	4,002,000	4,002,000	3,905,868	(96,132)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,559,078	1,559,076	1,529,032	30,044
Fire	168,246	168,646	147,359	21,287
Ambulance	28	28	0	28
Public Health	272,060	272,060	259,718	12,342
Leisure Time Activities	152,781	152,812	146,055	6,757
Community Environment	7,728	7,697	6,424	1,273
General Government	1,954,102	1,947,802	1,846,786	101,016
Debt Service:				
Principal Retirement	0	4,055	4,055	0
Interest and Fiscal Charges	0	3,445	2,651	794
Total Expenditures	4,114,023	4,115,621	3,942,080	173,541
Excess of Revenues Under Expenditures	(112,023)	(113,621)	(36,212)	77,409
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued	500,000	500,000	500,000	0
Advances In	0	0	3,028	3,028
Advances Out	(6,000)	(6,000)	0	6,000
Transfers In	0	0	12,941	12,941
Transfers Out	(664,000)	(662,800)	(570,605)	92,195
Total Other Financing Sources (Uses)	(170,000)	(168,800)	(54,636)	114,164
Change in Fund Balance	(282,023)	(282,421)	(90,848)	191,573
Fund Balance Beginning of Year	313,601	313,601	313,601	0
Prior Year Encumbrances Appropriated	98,600	98,600	98,600	0
Fund Balance End of Year	\$130,178	\$129,780	\$321,353	\$191,573

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2005

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Intergovernmental	\$370,000	\$370,000	\$288,326	(\$81,674)
Interest	3,000	3,000	3,111	111
Other	2,000	2,000	3,350	1,350
Total Revenues	375,000	375,000	294,787	(80,213)
<u>Expenditures</u>				
Current:				
Transportation	632,259	632,259	562,987	69,272
Excess of Revenues Under Expenditures	(257,259)	(257,259)	(268,200)	(10,941)
<u>Other Financing Sources</u>				
Transfers In	270,000	270,000	220,000	(50,000)
Change in Fund Balance	12,741	12,741	(48,200)	(60,941)
Fund Balance Beginning of Year	60,501	60,501	60,501	0
Prior Year Encumbrances Appropriated	7,559	7,559	7,559	0
Fund Balance End of Year	\$80,801	\$80,801	\$19,860	(\$60,941)

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Fund Net Assets
Proprietary Funds
December 31, 2005

	<u>Business-Type Activities</u>		Total Enterprise Funds	Governmental
	Water	Sewer		Activity Internal Service Fund
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$275,074	\$575,534	\$850,608	\$0
Cash and Cash Equivalents with Fiscal Agents	0	0	0	123,074
Accounts Receivable	189,624	290,811	480,435	0
Due from Other Governments	0	36,420	36,420	0
Prepaid Items	7,958	3,314	11,272	0
Materials and Supplies Inventory	23,063	5,877	28,940	0
Total Current Assets	495,719	911,956	1,407,675	123,074
<u>Non-Current Assets</u>				
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	40,476	0	40,476	0
Nondepreciable Capital Assets	12,552	185,998	198,550	0
Depreciable Capital Assets, Net	1,928,106	9,605,157	11,533,263	0
Total Non-Current Assets	1,981,134	9,791,155	11,772,289	0
Total Assets	2,476,853	10,703,111	13,179,964	123,074
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	4,130	7,294	11,424	0
Accounts Payable	8,460	35,783	44,243	0
Contracts Payable	0	38,888	38,888	0
Due to Other Governments	8,741	15,259	24,000	0
Accrued Interest Payable	19	254	273	0
General Obligation Bonds Payable	2,537	34,678	37,215	0
OPWC Loans Payable	1,514	13,745	15,259	0
OWDA Loans Payable	43,047	182,266	225,313	0
Capital Leases Payable	17,484	17,485	34,969	0
Compensated Absences Payable	19,606	15,711	35,317	0
Total Current Liabilities	105,538	361,363	466,901	0
<u>Non-Current Liabilities</u>				
Deposits Held and Due to Others	40,476	0	40,476	0
General Obligation Bonds Payable	5,287	72,258	77,545	0
OPWC Loans Payable	27,363	240,331	267,694	0
OWDA Loans Payable	788,377	4,620,927	5,409,304	0
Capital Leases Payable	37,058	37,056	74,114	0
Compensated Absences Payable	11,678	36,909	48,587	0
Total Non-Current Liabilities	910,239	5,007,481	5,917,720	0
Total Liabilities	1,015,777	5,368,844	6,384,621	0
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	1,017,991	4,572,409	5,590,400	0
Unrestricted	443,085	761,858	1,204,943	123,074
Total Net Assets	\$1,461,076	\$5,334,267	6,795,343	\$123,074

Net assets reported for business-type activities on the statement of net assets are different because they include a proportionate share of the net assets of the internal service fund.

31,271

Net assets of business-type activities

\$6,826,614

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$1,262,178	\$1,746,278	\$3,008,456	\$279,169
Other	2,932	27,151	30,083	4,765
Total Operating Revenues	<u>1,265,110</u>	<u>1,773,429</u>	<u>3,038,539</u>	<u>283,934</u>
<u>Operating Expenses</u>				
Personal Services	332,738	614,949	947,687	0
Contractual Services	21,648	190,309	211,957	42,484
Materials and Supplies	778,861	344,992	1,123,853	0
Bad Debt	221	5,127	5,348	0
Claims	0	0	0	182,293
Other	59,879	60,000	119,879	116
Depreciation	59,331	222,800	282,131	0
Total Operating Expenses	<u>1,252,678</u>	<u>1,438,177</u>	<u>2,690,855</u>	<u>224,893</u>
Operating Income	<u>12,432</u>	<u>335,252</u>	<u>347,684</u>	<u>59,041</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	0	1,064	1,064	2,503
Interest Expense	(48,609)	(196,719)	(245,328)	0
Loss on Disposal of Capital Assets	0	(19,785)	(19,785)	0
Total Non-Operating Revenues (Expenses)	<u>(48,609)</u>	<u>(215,440)</u>	<u>(264,049)</u>	<u>2,503</u>
Income (Loss) before Contributions and Transfers	<u>(36,177)</u>	<u>119,812</u>	<u>83,635</u>	<u>61,544</u>
Capital Contributions	18,141	331,279	349,420	0
Transfers In	1,000	1,000	2,000	0
Change in Net Assets	<u>(17,036)</u>	<u>452,091</u>	<u>435,055</u>	<u>61,544</u>
Net Assets Beginning of Year	<u>1,478,112</u>	<u>4,882,176</u>		<u>61,530</u>
Net Assets End of Year	<u>\$1,461,076</u>	<u>\$5,334,267</u>		<u>\$123,074</u>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

	<u>15,351</u>
Change in net assets of business-type activities	<u>\$450,406</u>

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities			Governmental
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,245,295	\$1,729,430	\$2,974,725	\$0
Cash Received from Transactions with Other Funds	0	0	0	279,169
Cash Received from Other Revenues	2,932	27,151	30,083	4,765
Cash Payments for Personal Services	(332,738)	(621,877)	(954,615)	0
Cash Payments for Contractual Services	(22,548)	(264,607)	(287,155)	(42,484)
Cash Payments to Vendors	(774,926)	(425,953)	(1,200,879)	0
Cash Payments for Claims	0	0	0	(229,726)
Cash Payments for Other Expenses	(59,879)	(60,000)	(119,879)	(116)
Net Cash Provided by Operating Activities	58,136	384,144	442,280	11,608
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	1,000	1,000	2,000	0
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on General Obligation Bonds	(2,455)	(33,548)	(36,003)	0
Principal Paid on OPWC Loans	(757)	(12,781)	(13,538)	0
Principal Paid on OWDA Loans	(40,787)	(175,378)	(216,165)	0
Lease Principal	(20,000)	(20,000)	(40,000)	0
Interest Paid on General Obligation Bonds	(293)	(4,012)	(4,305)	0
Interest Paid on OWDA Loans	(48,321)	(192,787)	(241,108)	0
Proceeds of OPWC Loans	11,623	16,293	27,916	0
Grants	0	294,859	294,859	0
Acquisition of Capital Assets	(48,012)	(160,757)	(208,769)	0
Net Cash Used for Capital and Related Financing Activities	(149,002)	(288,111)	(437,113)	0
<u>Cash Flows from Investing Activities</u>				
Interest	0	1,064	1,064	2,503
Net Increase (Decrease) in Cash and Cash Equivalents	(89,866)	98,097	8,231	14,111
Cash and Cash Equivalents Beginning of Year	405,416	477,437	882,853	108,963
Cash and Cash Equivalents End of Year	\$315,550	\$575,534	\$891,084	\$123,074
See Independent Auditor's Report				(continued)

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005
(continued)

	Business-Type Activities			Governmental
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
<u>Reconciliation of Operating Income to Net</u>				
<u>Cash Provided by Operating Activities</u>				
Operating Income	\$12,432	\$335,252	\$347,684	\$59,041
<u>Adjustments to Reconcile Operating Income to Net</u>				
<u>Cash Provided by Operating Activities</u>				
Depreciation	59,331	222,800	282,131	0
Provision for Uncollectible Accounts	221	5,127	5,348	0
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(16,883)	(16,848)	(33,731)	0
Increase in Prepaid Items	(1,055)	(1,222)	(2,277)	0
Increase in Materials and Supplies Inventory	(3,149)	(70)	(3,219)	0
Decrease in Accrued Wages Payable	(712)	(608)	(1,320)	0
Increase in Accounts Payable	567	5,994	6,561	0
Decrease in Contracts Payable	(327)	(82,814)	(83,141)	0
Decrease in Retainage Payable	0	(82,307)	(82,307)	0
Increase in Due to Other Governments	1,595	1,432	3,027	0
Decrease in Claims Payable	0	0	0	(47,433)
Increase (Decrease) in Compensated Absences Payable	2,174	(2,592)	(418)	0
Increase in Deposits Held and Due to Others	3,942	0	3,942	0
Net Cash Provided by Operating Activities	<u>\$58,136</u>	<u>\$384,144</u>	<u>\$442,280</u>	<u>\$11,608</u>

Non-Cash Capital Transactions

During 2005, the Municipal Purposes capital projects fund donated capital assets, in the amount of \$18,141, to the Water enterprise fund.

During 2005, the Water and Sewer enterprise funds entered into capital leases for equipment, in the amount of \$74,542 and \$74,541, respectively.

See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2005

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$980</u></u>
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Liabilities

Undistributed Assets	<u><u>\$980</u></u>
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See Accompanying Notes to the Basic Financial Statements
See Independent Auditor's Report

NOTE 1 - DESCRIPTION OF THE CITY OF PORT CLINTON AND THE REPORTING ENTITY

A. The City

The City of Port Clinton is a statutory municipal corporation operating under the laws of the State of Ohio. Port Clinton was incorporated as a city in 1955.

The City operates under a mayor-council form of government. Legislative power is vested in a seven member council and a council president, each elected to four-year terms. The Mayor is elected to a four-year term and is the chief executive officer of the City. All City officials, with the exception of the Safety-Service Director, are elected positions. The Safety-Service Director is appointed by the Mayor, with approval by the City Council.

The City of Port Clinton is divided into various departments and financial management and control systems. Services provided include police protection, parks and recreation, street maintenance and repair, and water and sewer services as well as a staff to provide support (i.e., payroll processing, accounts payable, and revenue collection) to the service providers. The operation and control of these activities is provided by the City Council through the budgetary process and by the Mayor through administrative and managerial requirements and procedures.

B. Reporting Entity

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the City of Port Clinton consists of all funds, departments, boards, and agencies that are not legally separate from the City.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Port Clinton in 2005.

The City participates in two insurance pools, the Ohio Government Risk Management Plan and the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan. These organizations are presented in Note 21 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Clinton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

The City's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities. The activity of the internal service fund is eliminated to avoid "doubling up" revenues and expenses.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the proprietary fund financial statements. Fiduciary funds are reported by type.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. 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 reported in three categories: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are those through which most governmental functions of the City are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The General Fund accounts for all financial resources, except those required to be accounted for 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.

Street Maintenance Fund - The Street Maintenance Fund accounts for ninety-two and one-half percent of the state gasoline tax and motor vehicle registration fees designated for maintenance and repair of streets within the City.

The other governmental funds of the City account for grants and other resources whose use is restricted for a particular purpose.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flows. The City reports two types of proprietary funds, enterprise and internal service:

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - The Water Fund accounts for the provision of water treatment and distribution to residential and commercial users within the City.

Sewer Fund - The Sewer Fund accounts for the provision of wastewater treatment service to residential and commercial users within the City.

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's internal service fund accounts for monies received for the activities of the self insurance program for employee health benefits.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2005. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. 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.

C. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets. The statement of activities presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets.

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and change in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and change in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting; proprietary funds and fiduciary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Nonexchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within thirty-one days after year end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, income taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the year for which the taxes are levied. Revenue from income taxes is recognized in the year in which the income is earned. Revenue from grants, entitlements, and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, charges for services, fines and forfeitures, state-levied locally shared taxes (including gasoline tax and motor vehicle registration fees), grants, and interest.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2005, but were levied to finance 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

All funds, except agency funds, are required to be budgeted and appropriated. The major documents prepared are the certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund/department level for the General Fund and the fund level for all other funds.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time final appropriations were passed by City Council.

The appropriations ordinance is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriations ordinance for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by City Council during the year.

F. Cash and Investments

To improve cash management, cash received by the City is pooled and invested. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents".

Cash and cash equivalents that were held separately with the City's third-party administrator are recorded as "Cash and Cash Equivalents with Fiscal Agent".

During 2005, the City's investments included nonnegotiable certificates of deposit, repurchase agreements, and STAR Ohio. Nonnegotiable certificates of deposit and repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2005.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2005 was \$55,568, which includes \$31,834 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time of purchase are presented on the financial statements as cash equivalents. Investments with an initial maturity of more than three months that were not purchased from the pool are reported as investments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2005, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

Inventory is presented at cost on a first-in, first-out basis and is expended/expensed when used. Inventory consists of expendable supplies held for consumption.

I. Restricted Assets

Assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

Unclaimed monies that have a legal restriction on their use are reported as restricted. Utility deposits from customers are restricted because their use is limited to the payment of unpaid utility bills or refunding of the deposit to the customer.

J. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net assets but are not reported on the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column on the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their fair market value on the date donated. The City maintains a capitalization threshold of ten thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City reports all infrastructure, including that acquired prior to 1980.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	15-45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-15 years
Streets	20-40 years
Water, Sewer, and Storm Sewer Lines	50 years

K. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from interfund loans are classified as “Interfund Receivables/Payables”. Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances reflected on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as “Internal Balances”.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at year end, taking into consideration any limits specified in City policies or by union contracts. The City records a liability for accumulated unused sick leave for all employees with ten or more years of service.

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported on the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, compensated absences that are paid from governmental funds are reported as liabilities on the fund financial statements only to the extent that they are due for payment during the current year. Bonds and capital leases are recognized as liabilities on the fund financial statements when due.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of streets and highways, the community development block grant program, revolving loan program, and various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Fund balance reserves have been established for unclaimed monies, notes receivable, and encumbrances.

P. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and sewer services, and charges for services in the internal service fund. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

Q. Capital Contributions

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

R. Interfund Transactions

Transfers between governmental and business-type activities on the government-wide financial statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of management and are either unusual in nature or infrequent in occurrence.

T. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES, CORRECTION OF AN ERROR, AND RESTATEMENT OF NET ASSETS/FUND BALANCE

A. Change in Accounting Principles

For 2005, the City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosure" and GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries".

GASB Statement No. 40 establishes and modifies the disclosure requirements related to deposit and investment risks. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. The implementation of this statement did not result in any change to the City's financial statements.

B. Correction of Errors

In 2004, the City incorrectly recorded activity for property taxes and grants. As a result of these errors, net assets for governmental activities increased \$183,106, from \$7,919,682 to \$8,102,788 as of December 31, 2004.

In addition, in prior years, the City recorded the acquisition of its own debt as an investment; however, this activity should be recorded as an interfund loan. The restatement due to the correction of the interfund loan had the following effect on fund balance of the major and nonmajor funds of the City as they were previously reported.

	General	Street Maintenance	Other Governmental	Total Governmental Funds
Fund Balance December 31, 2004	\$814,317	\$74,410	\$1,302,619	\$2,191,346
Manuscript Debt	0	0	(44,745)	(44,745)
Restated Fund Balance December 31, 2004	<u>\$814,317</u>	<u>\$74,410</u>	<u>\$1,257,874</u>	<u>\$2,146,601</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 4 - ACCOUNTABILITY

At December 31, 2005, the Harbor Patrol special revenue fund had a deficit fund balance, in the amount of \$65, which resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and change in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statements of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund and the Street Maintenance special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

Adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis are as follows:

Change in Fund Balance

	General	Street Maintenance
GAAP Basis	\$108,987	\$35,746
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2004, Received in Cash 2005	469,054	19,331
Accrued 2005, Not Yet Received in Cash	(465,290)	(54,087)
Expenditure Accruals:		
Accrued 2004, Paid in Cash 2005	(172,046)	(27,840)
Accrued 2005, Not Yet Paid in Cash	144,789	24,690
		(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Change in Fund Balance
(continued)

	General	Street Maintenance
Cash Adjustments:		
Unrecorded Activity 2004	\$2,687	\$388
Unrecorded Activity 2005	(4,767)	(513)
Prepaid Items	(12,210)	(1,813)
Materials and Supplies Inventory	659	(7,693)
Advances In	3,028	0
Encumbrances Outstanding at Year End (Budget Basis)	(165,739)	(36,409)
Budget Basis	(\$90,848)	(\$48,200)

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State as to which there is no default of principal, interest, or coupons; and
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements, and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage, and short selling are also prohibited. An investment must mature within five years from the date of purchase, unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions.

Investments

As of December 31, 2005, the City had the following investments:

	Fair Value	Maturity
Repurchase Agreement	\$883,446	1/3/06
STAR Ohio	1,464,995	39.41 days
Total Investments	\$2,348,441	

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Interest rate risk arises because potential purchasers of debt securities will not agree to pay face value for those securities if interest rates subsequently increase. The investment policy restricts the Treasurer from investing in anything other than as identified in the Ohio Revised Code. Securities with a fixed interest rate must mature within five years from the date of investment and securities with a variable interest rate must mature within two years from the date of investment.

The securities underlying the repurchase agreement (Federal Home Loan Mortgage Corporation Notes) carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

With the exception of direct obligations of the U.S. Treasury and Star Ohio, no more than 25 percent of the City's total investment portfolio may be invested in a single security type or with a single institution. However, at December 31, 2005, 37.6 percent of the City's portfolio was invested in repurchase agreements.

NOTE 7 - RECEIVABLES

Receivables at December 31, 2005, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; and special assessments. Notes receivable, in the amount of \$404,783, will not be received within one year. Special assessments receivable, in the amount of \$304,823, will not be received within one year. At December 31, 2005, the amount of delinquent special assessments was \$65,698.

A summary of the changes in notes receivable during 2005 follows:

	Balance December 31, 2004	New Loans	Repayments	Balance December 31, 2005
Special Revenue Fund				
CDBG	\$155,978	\$0	\$0	\$155,978
HPG	136,860	120,226	49,514	207,572
HOME	62,499	8,501	11,239	59,761
	<u>\$355,337</u>	<u>\$128,727</u>	<u>\$60,753</u>	<u>\$423,311</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 7 - RECEIVABLES (continued)

A summary of accounts receivable related to utility services is as follows:

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$203,126	\$312,840	\$515,966
Less Allowance for Uncollectibles	13,502	22,029	35,531
Net Accounts Receivable	\$189,624	\$290,811	\$480,435

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$24,900
Personal Property Exemption	2,946
Local Government	208,539
Beer and Liquor Permits	10,835
Estate Tax	10,152
Municipal Court Fines	325
ODNR Grant	7,664
Total General Fund	265,361
Street Maintenance	
Gasoline Tax	118,128
Motor Vehicle License Tax	58,115
Total Street Maintenance	176,243
Total Major Funds	441,604
Nonmajor Funds	
State Highway	
Gasoline Tax	9,578
Motor Vehicle License Tax	4,712
Total State Highway	14,290
Drug Law Enforcement	
Municipal Court Fines	100
Law Enforcement Trust	
Municipal Court Fines	100

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
COPS in Schools	
COPS Grant	\$3,472
CDBG	
CDBG Grant	51,074
Total Nonmajor Funds	69,036
Total Governmental Activities	\$510,640
Business-Type Activities	
Major Fund	
Sewer	
STAG Grant	\$36,420

NOTE 8 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 1.5 percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. All income tax revenue is credited to the General Fund.

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2005 represent the collection of 2004 taxes. Real property taxes received in 2005 were levied after October 1, 2004, on the assessed values as of January 1, 2004, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2005 represent the collection of 2004 taxes. Public utility real and tangible personal property taxes received in 2005 became a lien on December 31, 2003, were levied after October 1, 2004, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 9 - PROPERTY TAXES (continued)

Tangible personal property tax revenues received in 2005 (other than public utility property) represent the collection of 2005 taxes. Tangible personal property taxes received in 2005 were levied after October 1, 2004, on the true value as of December 31, 2004. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Port Clinton. The County Auditor periodically remits to the City its portion of the taxes collected.

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2005, and for which there was an enforceable legal claim. In governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2005 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable has been deferred.

The full tax rate for all City operations for the year ended December 31, 2005, was \$4.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2005 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$91,826,680
Commercial/Industrial	32,126,500
Public Utility Real	16,100
Public Utility Personal	6,689,720
Tangible Personal	5,962,235
Total	<u>\$136,621,235</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005, was as follows:

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$516,482	\$0	\$0	\$516,482
Construction in Progress	130,075	461,580	0	591,655
Total Nondepreciable Capital Assets	<u>646,557</u>	<u>461,580</u>	<u>0</u>	<u>1,108,137</u>
Depreciable Capital Assets				
Land Improvements	20,787	0	0	20,787
Buildings and Improvements	1,532,811	0	0	1,532,811
Furniture, Fixtures, and Equipment	1,200,759	73,822	(55,000)	1,219,581
Vehicles	1,461,048	12,370	(25,400)	1,448,018
Streets	7,796,420	0	0	7,796,420
Total Depreciable Capital Assets	<u>12,011,825</u>	<u>86,192</u>	<u>(80,400)</u>	<u>12,017,617</u>
Less Accumulated Depreciation for				
Land Improvements	(2,598)	(1,040)	0	(3,638)
Buildings and Improvements	(492,904)	(32,403)	0	(525,307)
Furniture, Fixtures, and Equipment	(594,751)	(85,109)	55,000	(624,860)
Vehicles	(1,242,912)	(84,086)	25,400	(1,301,598)
Streets	(4,588,423)	(195,839)	0	(4,784,262)
Total Accumulated Depreciation	<u>(6,921,588)</u>	<u>(398,477)</u>	<u>80,400</u>	<u>(7,239,665)</u>
Total Depreciable Capital Assets, Net	<u>5,090,237</u>	<u>(312,285)</u>	<u>0</u>	<u>4,777,952</u>
Governmental Activities Capital Assets, Net	<u>\$5,736,794</u>	<u>\$149,295</u>	<u>\$0</u>	<u>\$5,886,089</u>

The City accepted contributions of depreciable capital assets for governmental activities with a fair value of \$39,400 during 2005.

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552	\$0	\$0	\$12,552
Construction in Progress	8,319,737	211,860	(8,345,599)	185,998
Total Nondepreciable Capital Assets	<u>8,332,289</u>	<u>211,860</u>	<u>(8,345,599)</u>	<u>198,550</u>

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
Business-Type Activities (continued):				
Depreciable Capital Assets				
Land Improvements	\$13,965	\$0	\$0	\$13,965
Buildings and Improvements	2,959,017	8,201,478	(31,500)	11,128,995
Furniture, Fixtures, and Equipment	474,852	177,878	(58,000)	594,730
Vehicles	96,580	24,490	(26,256)	94,814
Water, Sewer, and Storm Sewer Lines	2,420,110	144,121	0	2,564,231
Total Depreciable Capital Assets	<u>5,964,524</u>	<u>8,547,967</u>	<u>(115,756)</u>	<u>14,396,735</u>
Less Accumulated Depreciation for				
Land Improvements	(3,142)	(698)	0	(3,840)
Buildings and Improvements	(1,965,080)	(191,461)	24,715	(2,131,826)
Furniture, Fixtures, and Equipment	(219,924)	(34,227)	45,000	(209,151)
Vehicles	(80,285)	(7,341)	26,256	(61,370)
Water, Sewer, and Storm Sewer Lines	(408,881)	(48,404)	0	(457,285)
Total Accumulated Depreciation	<u>(2,677,312)</u>	<u>(282,131)</u>	<u>95,971</u>	<u>(2,863,472)</u>
Total Depreciable Capital Assets, Net	<u>3,287,212</u>	<u>8,265,836</u>	<u>(19,785)</u>	<u>11,533,263</u>
Business-Type Activities Capital Assets, Net	<u>\$11,619,501</u>	<u>\$8,477,696</u>	<u>(\$8,365,384)</u>	<u>\$11,731,813</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$69,649
Security of Persons and Property - Fire	30,814
Public Health	23,337
Leisure Time Activities	14,383
Transportation	241,565
General Government	18,729
Total Depreciation Expense - Governmental Activities	<u>\$398,477</u>

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2005, the General Fund had an interfund receivable, in the amount of \$41,717, for a loan made to other governmental funds. Of this amount, \$38,515 is not scheduled to be collected within one year.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2005, the City contracted with the Ohio Government Risk Management Plan, an insurance pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$13,004,072	\$1,000
Special Property	1,438,228	1,000
General Liability		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Medical Expense		
Per Person	10,000	0
Aggregate	50,000	0
Employer's Liability		
Occurrence	2,000,000	0
Aggregate	2,000,000	0
Employee Benefits		
Occurrence	1,000,000	0
Aggregate	3,000,000	0
Public Officials Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Law Enforcement Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Auto Liability	2,000,000	250/500

There has been no significant reduction in insurance coverage from 2004, and no insurance settlement has exceeded insurance coverage during the last three years.

Through May 31, 2005, the City provided employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participated in the self-insurance program and made payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. The City utilized a claims servicing pool, the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) to process all claims. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. At December 31, 2005, the City had \$123,074 on deposit with OME-RESA.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 12 - RISK MANAGEMENT (continued)

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses.

The changes in the claims liability for 2005 and 2004 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2005	\$47,433	\$182,293	\$229,726	\$0
2004	117,873	272,653	343,093	47,433

On June 1, 2005, the City began purchasing insurance through Medical Mutual of Ohio.

For 2005, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

Participation in the Plan is limited to members that can meet the Plan's selection criteria. The members apply for participation each year. The firm of CompManagement provides administrative, cost control, and actuarial services to the Plan. Each year, the City pays an enrollment fee to the Plan to cover the costs of administering the program.

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2005, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Brunkhurst Engineering	Survey	\$2,500
Fellhauer Mechanical	Firestation Electrical Upgrades	8,500
John Distin	WWTP Funding	16,076
Floyd Browne	Operating Asst WWTP I	2,844

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 13 - CONTRACTUAL COMMITMENTS (continued)

Company	Project	Amount Remaining on Contract
Floyd Browne	Engineer - Phase Ia WWTP	\$80,087
Floyd Browne	Engineer - Phase II WWTP	59,550
Floyd Browne	Engineer - WWTP Operations	9,614
Floyd Browne	Engineer - 2nd/Laurel Storm Drainage	7,860
Floyd Browne	Engineer - General Services	6,950
Floyd Browne	Engineer - Transient EPA Phase I	1,854
J. Wadsworth Excavating	Fulton Street	16,000
Poggemeyer Design	Waterworks Redevelopment	8,750

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

For the year ended December 31, 2005, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2005 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2005, 2004, and 2003 was \$178,694, \$196,032, and \$154,011, respectively; 97 percent has been contributed for 2005 and 100 percent has been contributed for 2004 and 2003. The unpaid contribution for 2005, in the amount of \$5,323, is recorded as a liability. Contributions to the member-directed plan for 2005 were \$6,174 made by the City and \$3,873 made by plan members.

B. Ohio Police and Fire Pension Fund

The City participates in the Ohio Police and Fire Pension Fund (OPF), a cost-sharing multiple-employer defined benefit pension plan. OPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. OPF issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the OPF for the years ended December 31, 2005, 2004, and 2003 were \$82,771, \$80,210, and \$79,707, respectively; 73 percent has been contributed for 2005 and 100 percent has been contributed for 2004 and 2003. The unpaid contribution for 2005, in the amount of \$22,297, is recorded as a liability.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2005 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2004, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted to reflect 25 percent of unrealized market appreciation or depreciation on investment assets annually.

The number of active contributing participants in the traditional and combined plans was 376,109. Actual employer contributions for 2005 which were used to fund postemployment benefits was \$77,431. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2004 (the latest information available), was \$10.8 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$29.5 billion and \$18.6 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, OPERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (OPF) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen, whether or not the child is attending school, or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OPF's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2005. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2005 that were used to fund postemployment benefits were \$54,594 for police. The OPF's total health care expense for the year ended December 31, 2004 (the latest information available), was \$102,173,796, which was net of member contributions of \$55,665,341. The number of OPF participants eligible to receive health care benefits as of December 31, 2004, was 13,812 for police and 10,528 for firefighters.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 16 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits is derived from negotiated agreements and State laws.

City employees earn vacation at varying rates depending on length of service. Current policy credits vacation leave on the employee's anniversary date. Employees are paid for 100 percent of accumulated unused vacation leave upon termination.

Sick leave is earned at various rates as defined by City policy and union contracts. Full-time employees with twenty or more years of service, who leave the employment of the City for reasons other than termination of employment by the City, or employees who retire from the City are entitled to receive one-fourth of the value of their accumulated unused sick leave up to a maximum payment of three hundred seventy-five hours for employees who retire under a collective bargaining agreement or five hundred hours for all other employees.

NOTE 17 - NOTES PAYABLE

The changes in the City's notes payable during 2005 were as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005
<u>Governmental Activities</u>					
2005 Fire Station	3.64%	\$0	\$500,000	\$0	\$500,000

According to Ohio law, notes may be issued in anticipation of bond proceeds or for up to 50 percent of anticipated revenue collections.

On March 9, 2005, the City issued bond anticipation notes, in the amount of \$500,000, to acquire, remodel, equip, and otherwise improve a building to house the operations of the City's volunteer fire department. The notes have an interest rate of 3.64 percent and will mature on March 9, 2007. The notes will be paid from the General Fund.

At December 31, 2005, the amount of bond anticipation notes outstanding was \$500,000, of which \$468,621 had been expended.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2005, was as follows:

	Interest Rate	Balance December 31, 2004	Additions	Reductions	Balance December 31, 2005	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$84,260)	6.22%	\$42,758	\$0	\$4,055	\$38,703	\$4,055
2002 Various Purpose (Original Amount \$1,271,000)	2.855	720,237	0	171,997	548,240	177,785
Total General Obligation Bonds		762,995	0	176,052	586,943	181,840
<u>Special Assessment Bonds</u>						
1990 South Madison Street (Original Amount \$132,500)	7.4	42,000	0	7,000	35,000	7,000
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	73,242	0	6,945	66,297	6,945
1995 Fulton Street (Original Amount \$48,530)	6.5	30,000	0	2,000	28,000	2,000
Total Special Assessment Bonds		145,242	0	15,945	129,297	15,945
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		104,554	0	65,855	38,699	38,699
Compensated Absences Payable		120,143	9,751	13,470	116,424	44,737
Total Other Long-Term Obligations		224,697	9,751	79,325	155,123	83,436
Total Governmental Activities		\$1,132,934	\$9,751	\$271,322	\$871,363	\$281,221
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
2002 General Obligation Bonds (Original Amount \$220,000)	2.855%	\$150,763	\$0	\$36,003	\$114,760	\$37,215
<u>OPWC Loans</u>						
2002 OPWC Loans Payable (Original Amount \$28,000)	0	24,500	0	1,400	23,100	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)	0	203,141	0	10,417	192,724	10,417
2004 OPWC Loans Payable (Original Amount \$40,934)	0	40,934	27,916	1,721	67,129	3,442
Total OPWC Loans		268,575	27,916	13,538	282,953	15,259
<u>OWDA Loans</u>						
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54	872,211	0	40,787	831,424	43,047
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	4,978,571	0	175,378	4,803,193	182,266
Total OWDA Loans		5,850,782	0	216,165	5,634,617	225,313
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		0	149,083	40,000	109,083	34,969
Compensated Absences Payable		84,322	0	418	83,904	35,317
Total Other Long-Term Obligations		84,322	149,083	40,418	192,987	70,286
Total Business-Type Activities		\$6,354,442	\$176,999	\$306,124	\$6,225,317	\$348,073

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 18 - LONG-TERM OBLIGATIONS (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 unvoted property tax revenues to the extent that other resources are not available to meet annual principal and interest payments.

Special Assessment Bonds

The special assessment bonds are supported by the full faith and credit of the City of Port Clinton. In the event that an assessed property owner fails to make payments or insufficient amounts are assessed to fund the bonds, the City will be required to pay the related debt.

Capital Leases Payable

Capital lease obligations will be paid from the fund that maintains custody of the related asset.

Compensated Absences

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, Street Maintenance special revenue fund, and Water and Sewer enterprise funds.

OPWC Loans Payable

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 Payable

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water tower and wastewater treatment plant improvements. The loans will be paid from resources of the Water and Sewer enterprise funds.

The City's legal debt margin was \$13,263,332 at December 31, 2005.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2005, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2006	\$181,840	\$18,052	\$15,945	\$8,520
2007	186,802	12,724	15,945	7,442
2008	191,763	7,257	16,945	6,363
2009	4,423	1,646	17,577	5,219
2010	4,423	1,371	17,577	4,037
2011 to 2015	17,692	2,742	45,308	7,620
Total	\$586,943	\$43,792	\$129,297	\$39,201

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2005, from the business-type activities were as follows:

Year	General Obligation Bonds		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2006	\$37,215	\$3,277	\$15,259	\$225,313	\$231,960
2007	38,253	2,213	15,260	234,858	222,416
2008	39,292	1,121	15,260	244,815	212,459
2009	0	0	15,260	255,205	202,069
2010	0	0	15,260	266,043	191,229
2011 to 2015	0	0	76,300	1,510,053	776,315
2016 to 2020	0	0	76,300	1,725,255	427,151
2021 to 2024	0	0	54,054	1,173,075	394,673
Total	<u>\$114,760</u>	<u>\$6,611</u>	<u>\$282,953</u>	<u>\$5,634,617</u>	<u>\$2,658,272</u>

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment and vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds and as a reduction of the liability in the enterprise funds. Principal payments in 2005 were \$65,855 for governmental funds and \$40,000 for enterprise funds.

	Governmental Activities	Business-Type Activities
Equipment	\$142,215	\$149,083
Vehicles	116,155	0
Less Accumulated Depreciation	(92,049)	(12,424)
Total	<u>\$166,321</u>	<u>\$136,659</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2005

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2005.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$38,699	\$1,529	\$34,969	\$4,807
2007	0	0	36,179	3,598
2008	0	0	37,935	1,841
Total	\$38,699	\$1,529	\$109,083	\$10,246

NOTE 20 - INTERFUND TRANSFERS

During 2005, the General Fund made transfers to the Street Maintenance fund, in the amount of \$220,000, to subsidize activities of the fund. The General Fund made transfers to other governmental funds, in the amount of \$350,605; \$49,105 as debt payments came due and \$301,500 to subsidize activities of the various funds. The General Fund also made transfers to the Water and Sewer enterprise funds, in the amount of \$1,000 each, to subsidize operations.

Other governmental funds made transfers to the General Fund, in the amount of \$12,941; \$11,040 for a short-term loan and \$1,901 to close out a fund. Other governmental funds also made transfers to other governmental funds, in the amount of \$156,649, as debt payments came due.

NOTE 21 - INSURANCE POOLS

A. Ohio Government Risk Management Plan

The City participates in the Ohio Government Risk Management Plan (Plan), an insurance purchasing pool established under Section 2744.081 of the Ohio Revised Code. The Plan is an unincorporated nonprofit association of its members which enables the participants to provide for a formalized joint insurance purchasing program for maintaining adequate insurance protection and provides risk management programs and other administrative services. The plan's business and affairs are conducted by an eleven member board consisting of public officials selected from the membership. Financial information can be obtained from Ohio Government Risk Management Plan, 420 Madison Avenue, Toledo, Ohio 43204.

B. North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan was established through the North Central Ohio Municipal Finance Officers' Association (NCOMFOA) as an insurance purchasing pool. Larry Rush serves as coordinator of the NCOMFOA. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

NOTE 22 - CONTINGENT LIABILITIES

The City of Port Clinton is a party to legal proceedings seeking damages or injunctive relief generally incidental to its operations and pending projects. The City management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

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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***

The Members of City Council
City of Port Clinton
Port Clinton, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items 2005-1, 2005-2, and 2005-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2005-1 and 2005-2 to be material weaknesses.

Compliance and Other Matters

As part of reasonable assurance about whether the City's financial statements are free of 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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Port Clinton in a separate letter dated December 8, 2006.

This report is intended solely for the information and use management, City Council, federal awarding agencies, and pass-through entities and its not intended to be and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Toledo, Ohio
December 8, 2006

CITY OF PORT CLINTON, OHIO

Schedule of Findings and Responses

Reference 2005-1 – Bank Reconciliations

Criteria

The timely preparation of bank reconciliations is a key component of internal controls.

Condition

Bank reconciliations were not completed timely throughout 2005.

Effect

Without timely preparation and completion of bank reconciliation, and the review by someone other than the preparer, errors or irregularities may go undetected or may not be detected in a timely manner.

Recommendation

We recommend bank reconciliations be completed in a timely manner. We also recommend the preparer sign and date the reconciliation to document completion. The supervisor should also sign and date the reconciliation indicating they have reviewed for completion and any unusual reconciling items have been appropriately cleared.

City's Response and Planned Corrective Action

The treasurer is in the process of completing the bank reconciliations and has contracted with Local Government Services for assistance.

Reference 2005-2 – Segregation of Duties – Payroll Cycle

Criteria

Segregation of duties is a key component of internal controls.

Condition

The deputy auditor's responsibilities with respect to the payroll system includes adding new employees, removing terminated employees, processing payroll changes (i.e., rate, address, etc.), and processing the bi-weekly payroll and issuing checks.

Effect

The current assignment of payroll responsibilities increases the possibility of an unauthorized changes in payroll, errors or irregularities.

Recommendation

We recommend someone independent of the payroll processing review the payroll register on a regular basis for errors or irregularities.

City's Response and Planned Corrective Action

We will take this recommendation under consideration.

CITY OF PORT CLINTON, OHIO

Schedule of Findings and Responses, Continued

Reference 2005-3 – Segregation of Duties – Utilities

Criteria

Segregation of duties is a key component of internal controls.

Condition

The utilities administrative clerk is responsible for opening the mail and preparing the cash receipts summary for posting to the accounts receivable subsidiary ledger.

Effect

Errors may go undetected and the effectiveness of the detective control is compromised.

Recommendation

To more adequately safeguard against misappropriation of funds, we recommend an individual independent of subsidiary ledger posting should initially receive all remittances and prepare a tape of the total daily receipts prior to forwarding the receipts information to the utilities administrative clerk. This tape should then be compared to the daily deposit at the end of each day.

City's Response and Planned Corrective Action

We will take this recommendation under consideration.



Mary Taylor, CPA
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 25, 2007**