



**Auditor of State
Betty Montgomery**

**CITY OF PORT CLINTON
OTTAWA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Port Clinton
Ottawa County
1868 E. Perry Street
Port Clinton, OH 43452-1497

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Port Clinton, Ottawa County, (the City) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose 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 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 obtain reasonable assurance about 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Port Clinton as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general-purpose financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 24, 2003

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$417,377	\$685,816	\$50,868	\$481,588
Cash and Cash Equivalents with Fiscal Agents			1,325	
Receivables:				
Property Taxes	452,900			
Municipal Income Taxes	673,439			
Other Local Taxes	3,713			
Special Assessments			372,629	
Accounts (net, where applicable, of allowance for uncollectibles)	114,905			
Interfund	49,076	1,930		
Notes		324,038		
Due from Other Governments	253,976	148,184		
Materials and Supplies Inventory	17,629	11,821		
Prepaid Items	26,355	3,551		
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents				
Fixed Assets (net, where applicable, of accumulated depreciation)				
<u>Other Debits</u>				
Amount to be Provided from General Governmental Resources				
Amount to be Provided from Special Assessments				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds				
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds				
Total Assets and Other Debits	\$2,009,370	\$1,175,340	\$424,822	\$481,588

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long - Term Obligations	
\$1,270,781		\$21,779			\$2,928,209
177					1,502
					452,900
					673,439
					3,713
					372,629
390,223					505,128
					51,006
					324,038
347,851					750,011
24,056					53,506
12,960					42,866
27,162					27,162
4,962,837			\$5,136,956		10,099,793
				\$1,391,507	1,391,507
				181,625	181,625
				5,045	5,045
				45,823	45,823
\$7,036,047		\$21,779	\$5,136,956	\$1,624,000	\$17,909,902

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2002
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	
Liabilities, Fund Equity, and Other Credits				
<u>Liabilities</u>				
Accounts Payable	\$18,772	\$16,881		\$2,663
Contracts Payable				
Retainage Payable				
Accrued Wages Payable	65,180	15,449		
Compensated Absences Payable	6,624	924		
Interfund Payable		1,930		
Due to Other Governments	33,133	5,506		3,373
Deferred Revenue	1,130,769	133,363	\$372,629	
Undistributed Assets				
Claims Payable				
Accrued Interest Payable				
Matured Interest Payable			1,325	
Payable from Restricted Assets:				
Deposits Held and Due to Others				
Capital Leases Payable				
OWDA Loan Payable				
OPWC Loan Payable				
General Obligation Bonds Payable				
General Obligation Revenue Bonds Payable				
Special Assessment Bonds Payable with Governmental Commitments				
	1,254,478	174,053	373,954	6,036
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved (Deficit)				
Contributed Capital				
Fund Balance:				
Reserved for Notes Receivable		324,038		
Reserved for Encumbrances	28,206	28,683		47,427
Unreserved	726,686	648,566	50,868	428,125
	754,892	1,001,287	50,868	475,552
Total Liabilities, Fund Equity, and Other Credits	\$2,009,370	\$1,175,340	\$424,822	\$481,588

See Accompanying Notes to the General-Purpose Financial Statements

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long - Term Obligations	
\$28,318					\$66,634
746,708					746,708
172,644					172,644
30,378					111,007
79,193				\$106,766	193,507
	\$49,076				51,006
35,565				80,465	158,042
					1,636,761
		\$9,857			9,857
	92,533				92,533
673					673
177					1,502
27,162					27,162
				107,453	107,453
932,340					932,340
27,300					27,300
				1,101,868	1,101,868
220,000					220,000
				227,448	227,448
<u>2,300,458</u>	<u>141,609</u>	<u>9,857</u>		<u>1,624,000</u>	<u>5,884,445</u>
			\$5,136,956		5,136,956
4,422,504	(141,609)				4,280,895
313,085					313,085
					324,038
					104,316
		11,922			1,866,167
<u>4,735,589</u>	<u>(141,609)</u>	<u>11,922</u>	<u>5,136,956</u>		<u>12,025,457</u>
<u>\$7,036,047</u>		<u>\$21,779</u>	<u>\$5,136,956</u>	<u>\$1,624,000</u>	<u>\$17,909,902</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2002**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>Revenues</u>		
Property Taxes	\$398,745	
Municipal Income Taxes	2,134,448	
Other Local Taxes	159,304	\$20,423
Special Assessments		
Intergovernmental	597,556	297,311
Charges for Services	436,194	1,385
Fees, Licenses, and Permits	33,877	
Fines and Forfeitures	14,678	1,071
Interest	15,282	15,923
Miscellaneous	34,101	19,896
Total Revenues	<u>3,824,185</u>	<u>356,009</u>
<u>Expenditures</u>		
Current:		
Security of Persons and Property	1,409,434	48,109
Public Health	201,124	
Leisure Time Activities	215,087	
Community Environment	6,575	26,260
Transportation		534,938
General Government	1,046,405	
Capital Outlay	24,218	15,000
Debt Service:		
Principal Retirement	208,128	5,000
Interest and Fiscal Charges	3,405	
Total Expenditures	<u>3,114,376</u>	<u>629,307</u>
Excess of Revenues Over / (Under) Expenditures	<u>709,809</u>	<u>(273,298)</u>
<u>Other Financing Sources (Uses)</u>		
Inception of Capital Lease	24,218	15,000
Proceeds of Bonds	196,000	
Sale of Fixed Assets		
Operating Transfers - In	7,000	272,200
Operating Transfers - Out	(734,556)	
Total Other Financing Sources (Uses)	<u>(507,338)</u>	<u>287,200</u>
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	202,471	13,902
Fund Balances at Beginning of Year - Restated (Note 3)	<u>552,421</u>	<u>987,385</u>
Fund Balances at End of Year	<u><u>\$754,892</u></u>	<u><u>\$1,001,287</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Total (Memorandum Only)</u>
<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>	
			\$398,745
			2,134,448
			179,727
\$29,516	\$6,592		36,108
	25,000		919,867
			437,579
			33,877
			15,749
	4,611		35,816
	128,780	\$439	183,216
<u>29,516</u>	<u>164,983</u>	<u>439</u>	<u>4,375,132</u>
			1,457,543
			201,124
			215,087
			32,835
			534,938
			1,046,405
	234,741		273,959
266,506	879,220		1,358,854
<u>88,414</u>	<u>6,047</u>		<u>97,866</u>
<u>354,920</u>	<u>1,120,008</u>		<u>5,218,611</u>
<u>(325,404)</u>	<u>(955,025)</u>	<u>439</u>	<u>(843,479)</u>
			39,218
	855,000		1,051,000
	43,502		43,502
329,472	391,900		1,000,572
	(259,016)		(993,572)
<u>329,472</u>	<u>1,031,386</u>		<u>1,140,720</u>
4,068	76,361	439	297,241
<u>46,800</u>	<u>399,191</u>	<u>11,483</u>	<u>1,997,280</u>
<u>\$50,868</u>	<u>\$475,552</u>	<u>\$11,922</u>	<u>\$2,294,521</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2002**

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
<u>Revenues</u>			
Property Taxes	\$418,600	\$398,745	(\$19,855)
Municipal Income Taxes	2,347,872	2,111,392	(236,480)
Other Local Taxes	215,861	160,112	(55,749)
Special Assessments			
Intergovernmental	840,126	604,674	(235,452)
Charges for Services	653,396	511,628	(141,768)
Fees, Licenses, and Permits	34,344	33,877	(467)
Fines and Forfeitures	23,995	15,179	(8,816)
Interest	31,710	14,545	(17,165)
Miscellaneous	119,096	34,101	(84,995)
Total Revenues	<u>4,685,000</u>	<u>3,884,253</u>	<u>(800,747)</u>
<u>Expenditures</u>			
Current:			
Security of Persons and Property	1,431,117	1,410,698	20,419
Public Health	215,327	201,554	13,773
Leisure Time Activities	229,924	212,301	17,623
Community Environment	6,396	6,692	(296)
Transportation			
General Government	1,131,241	1,062,304	68,937
Other			
Capital Outlay			
Debt Service:			
Principal Retirement	4,055	200,055	(196,000)
Interest and Fiscal Charges	3,945	3,405	540
Total Expenditures	<u>3,022,005</u>	<u>3,097,009</u>	<u>(75,004)</u>
Excess of Revenues Over (Under) Expenditures	<u>1,662,995</u>	<u>787,244</u>	<u>(875,751)</u>
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources			
Proceeds of Bonds		196,000	196,000
Sale of Fixed Assets			
Advances - In		25,000	25,000
Advances - Out			
Operating Transfers - In			
Operating Transfers - Out	(733,000)	(734,556)	(1,556)
Total Other Financing Sources (Uses)	<u>(733,000)</u>	<u>(513,556)</u>	<u>219,444</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	929,995	273,688	(656,307)
Fund Balances at Beginning of Year	119,199	119,199	
Prior Year Encumbrances Appropriated	35,644	35,644	
Fund Balances at End of Year	<u>\$1,084,838</u>	<u>\$428,531</u>	<u>(\$656,307)</u>

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$23,594	\$20,412	(\$3,182)			
390,528	305,788	(84,740)	\$50,000	\$29,516	(\$20,484)
1,500	1,385	(115)			
2,500	1,071	(1,429)			
49,729	17,507	(32,222)			
161,149	19,896	(141,253)			
<u>629,000</u>	<u>366,059</u>	<u>(262,941)</u>	<u>50,000</u>	<u>29,516</u>	<u>(20,484)</u>
105,292	52,525	52,767			
285,705	16,060	269,645			
735,671	562,159	173,512			
			270,000	263,945	6,055
			90,000	85,374	4,626
<u>1,126,668</u>	<u>630,744</u>	<u>495,924</u>	<u>360,000</u>	<u>349,319</u>	<u>10,681</u>
<u>(497,668)</u>	<u>(264,685)</u>	<u>232,983</u>	<u>(310,000)</u>	<u>(319,803)</u>	<u>(9,803)</u>
50,000	13,382	(36,618)			
292,000	272,200	(19,800)	1,500,000	320,539	(1,179,461)
			(5,045)		5,045
<u>342,000</u>	<u>285,582</u>	<u>(56,418)</u>	<u>1,494,955</u>	<u>320,539</u>	<u>(1,174,416)</u>
(155,668)	20,897	176,565	1,184,955	736	(1,184,219)
612,511	612,511		50,132	50,132	
20,833	20,833				
<u>\$477,676</u>	<u>\$654,241</u>	<u>\$176,565</u>	<u>\$1,235,087</u>	<u>\$50,868</u>	<u>(\$1,184,219)</u>

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 2002
(Continued)**

	<u>Capital Projects Funds</u>		Variance Favorable (Unfavorable)
	<u>Budget</u>	<u>Actual</u>	
<u>Revenues</u>			
Property Taxes			
Municipal Income Taxes			
Other Local Taxes			
Special Assessments	\$267,461	\$6,592	(\$260,869)
Intergovernmental	25,000	25,000	
Charges for Services			
Fees, Licenses, and Permits			
Fines and Forfeitures			
Interest	43,579	6,880	(36,699)
Miscellaneous	834,560	128,780	(705,780)
Total Revenues	<u>1,170,600</u>	<u>167,252</u>	<u>(1,003,348)</u>
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Public Health			
Leisure Time Activities			
Community Environment			
Transportation			
General Government			
Other			
Capital Outlay	433,372	312,173	121,199
Debt Service:			
Principal Retirement	3,000	859,322	(856,322)
Interest and Fiscal Charges	3,100	4,611	(1,511)
Total Expenditures	<u>439,472</u>	<u>1,176,106</u>	<u>(736,634)</u>
Excess of Revenues Over (Under) Expenditures	<u>731,128</u>	<u>(1,008,854)</u>	<u>(1,739,982)</u>
<u>Other Financing Sources (Uses)</u>			
Other Financing Sources			
Proceeds of Bonds		855,000	855,000
Sale of Fixed Assets		43,502	43,502
Advances - In			
Advances - Out	(25,000)	(25,000)	
Operating Transfers - In	354,400	391,900	37,500
Operating Transfers - Out	(236,000)	(250,083)	(14,083)
Total Other Financing Sources (Uses)	<u>93,400</u>	<u>1,015,319</u>	<u>921,919</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	824,528	6,465	(818,063)
Fund Balances at Beginning of Year	350,785	350,785	
Prior Year Encumbrances Appropriated	73,538	73,538	
Fund Balances at End of Year	<u>\$1,248,851</u>	<u>\$430,788</u>	<u>(\$818,063)</u>

See Accompanying Notes to the General-Purpose Financial Statements

Expendable Trust Fund			Total (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$418,600	\$398,745	(\$19,855)
			2,347,872	2,111,392	(236,480)
			239,455	180,524	(58,931)
			317,461	36,108	(281,353)
			1,255,654	935,462	(320,192)
			654,896	513,013	(141,883)
			34,344	33,877	(467)
			26,495	16,250	(10,245)
			125,018	38,932	(86,086)
\$2,000	\$439	(\$1,561)	1,116,805	183,216	(933,589)
2,000	439	(1,561)	6,536,600	4,447,519	(2,089,081)
			1,536,409	1,463,223	73,186
			215,327	201,554	13,773
			229,924	212,301	17,623
			292,101	22,752	269,349
			735,671	562,159	173,512
11,000		11,000	1,131,241	1,062,304	68,937
			11,000		11,000
			433,372	312,173	121,199
			277,055	1,323,322	(1,046,267)
			97,045	93,390	3,655
11,000		11,000	4,959,145	5,253,178	(294,033)
(9,000)	439	9,439	1,577,455	(805,659)	(2,383,114)
			50,000	13,382	(36,618)
				1,051,000	1,051,000
				43,502	43,502
				25,000	25,000
			(25,000)	(25,000)	
			2,146,400	984,639	(1,161,761)
			(974,045)	(984,639)	(10,594)
			1,197,355	1,107,884	(89,471)
(9,000)	439	9,439	2,774,810	302,225	(2,472,585)
11,483	11,483		1,144,110	1,144,110	
			130,015	130,015	
\$2,483	\$11,922	\$9,439	\$4,048,935	\$1,576,350	(\$2,472,585)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenses, and Changes in Fund Equity
All Proprietary Fund Types
For the Year Ended December 31, 2002**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
<u>Operating Revenues</u>			
Charges for Services	\$2,499,240	\$406,201	\$2,905,441
Other Operating Revenues	17,823	4,677	22,500
Total Operating Revenues	<u>2,517,063</u>	<u>410,878</u>	<u>2,927,941</u>
<u>Operating Expenses</u>			
Personal Services	851,636		851,636
Contractual Services	174,083	66,035	240,118
Materials and Supplies	704,251		704,251
Claims		449,048	449,048
Bad Debt	10,355		10,355
Depreciation	97,209		97,209
Other Operating Expenses	80,000		80,000
Total Operating Expenses	<u>1,917,534</u>	<u>515,083</u>	<u>2,432,617</u>
Operating Income (Loss)	<u>599,529</u>	<u>(104,205)</u>	<u>495,324</u>
<u>Non-Operating Revenues (Expenses)</u>			
Interest Income	487	212	699
Interest Expense	(76,074)		(76,074)
Loss on Disposal of Fixed Assets	(390)		(390)
Grants	1,890,805		1,890,805
Total Non-Operating Revenues (Expenses)	<u>1,814,828</u>	<u>212</u>	<u>1,815,040</u>
Income (Loss) before Operating Transfers	2,414,357	(103,993)	2,310,364
Operating Transfers Out	<u>(7,000)</u>		<u>(7,000)</u>
Net Income (Loss)	2,407,357	(103,993)	2,303,364
Retained Earnings (Deficit) at Beginning of Year	<u>2,015,147</u>	<u>(37,616)</u>	<u>1,977,531</u>
Retained Earnings (Deficit) at End of Year	4,422,504	(141,609)	4,280,895
Contributed Capital at Beginning of Year	307,584		307,584
Contributed from Other Funds	5,501		5,501
Contributed Capital at End of Year	<u>313,085</u>		<u>313,085</u>
Total Fund Equity (Deficit) at End of Year	<u>\$4,735,589</u>	<u>(\$141,609)</u>	<u>\$4,593,980</u>

See Accompanying Notes to the General-Purpose Financial Statements

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenses, and Changes in Fund Balances
Budget (Non-GAAP Budgetary Basis) and Actual
All Enterprise Funds
For the Year Ended December 31, 2002**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
<u>Revenues</u>			
Charges for Services	\$2,628,102	\$2,624,422	(\$3,680)
Proceeds of Bonds		220,000	220,000
Proceeds of OPWC Loan		28,000	28,000
Interest	1,471	241	(1,230)
Grants	6,199,529	1,542,954	(4,656,575)
Other Revenues	21,898	17,823	(4,075)
	<u>8,851,000</u>	<u>4,433,440</u>	<u>(4,417,560)</u>
<u>Expenses</u>			
Personal Services	860,719	830,496	30,223
Contractual Services	1,995,623	1,411,772	583,851
Materials and Supplies	873,023	724,500	148,523
Capital Outlay	205,000	281,335	(76,335)
Other	160,000	160,000	
Debt Service:			
Principal Retirement	138,949	379,130	(240,181)
Interest Expense	76,500	109,625	(33,125)
	<u>4,309,814</u>	<u>3,896,858</u>	<u>412,956</u>
Excess of Revenues Over Expenses	4,541,186	536,582	(4,004,604)
Fund Balances at Beginning of Year	670,211	670,211	
Prior Year Encumbrances Appropriated	31,565	31,565	
Fund Balances at End of Year	<u><u>\$5,242,962</u></u>	<u><u>\$1,238,358</u></u>	<u><u>(\$4,004,604)</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2002**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$2,624,422		\$2,624,422
Cash Received from Quasi-External Operating Transactions with Other Funds		\$406,201	406,201
Cash Payments for Personal Services	(830,146)		(830,146)
Cash Payments for Contractual Services	(206,983)	(66,035)	(273,018)
Cash Payments to Suppliers	(703,553)		(703,553)
Cash Payments for Claims		(424,726)	(424,726)
Cash Received from Other Revenues	17,823	4,677	22,500
Cash Payments for Other Expenses	(160,000)		(160,000)
Net Cash Provided by (Used for) Operating Activities	741,563	(79,883)	661,680
<u>Cash Flows from Noncapital Financing Activities</u>			
Cash Advance Received from Other Funds		49,076	49,076
Grants	1,542,954		1,542,954
Operating Transfers - Out	(7,000)		(7,000)
Net Cash Provided by Noncapital Financing Activities	1,535,954	49,076	1,585,030
<u>Cash Flows from Capital and Related Financing Activities</u>			
Proceeds of Bonds	220,000		220,000
Proceeds of OPWC Loan	28,000		28,000
Acquisition of Fixed Assets	(1,441,082)		(1,441,082)
Principal Paid on Bonds	(320,000)		(320,000)
Principal Paid on OWDA Loan	(58,430)		(58,430)
Principal Paid on OPWC Loan	(700)		(700)
Interest Paid on Bonds	(16,374)		(16,374)
Interest Paid on OWDA Loan	(93,251)		(93,251)
Net Cash Used for Capital and Related Financing Activities	(1,681,837)		(1,681,837)
<u>Cash Flows from Investing Activities</u>			
Interest	487	212	699
Net Increase (Decrease) in Cash and Cash Equivalents	596,167	(30,595)	565,572
Cash and Cash Equivalents at Beginning of Year	701,953	30,595	732,548
Cash and Cash Equivalents at End of Year	\$1,298,120	\$1,298,120	\$1,298,120

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2002
(Continued)**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$599,529	(\$104,205)	\$495,324
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>			
Depreciation	97,209		97,209
Bad Debt	10,355		10,355
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	125,182		125,182
Increase in Materials and Supplies Inventory	(3,526)		(3,526)
Increase in Prepaid Items	(7,196)		(7,196)
Increase in Accounts Payable	11,003		11,003
Decrease in Contracts Payable	(73,099)		(73,099)
Increase in Retainage Payable	29,998		29,998
Increase in Accrued Wages Payable	4,119		4,119
Increase in Compensated Absences Payable	9,920		9,920
Decrease in Due to Other Funds	(80,000)		(80,000)
Increase in Due to Other Governments	7,569		7,569
Increase in Claims Payable		24,322	24,322
Increase in Deposits Held and Due to Others	10,500		10,500
Net Cash Provided by (Used for) Operating Activities	<u>\$741,563</u>	<u>(\$79,883)</u>	<u>\$661,680</u>

Non-Cash Transactions

During 2002, the general fixed assets account group transferred fixed assets to the Water and Sewer enterprise funds with a net book value of \$186 and \$5,315, respectively.

During 2002, the Sewer enterprise fund received \$347,851 from grants for construction of fixed assets.

See Accompanying Notes to the General-Purpose Financial Statements

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002**

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 2002.

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 combined financial statements.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

A. Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net available expendable resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories of governmental, proprietary, and fiduciary.

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds and trust fund) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund

The General fund is the general operating fund of the City. It is used to account 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.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects or expendable trusts) whose use is restricted. The use and limitation of each special revenue fund is specified by City ordinances or federal and state statutes.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term obligation principal, interest, and related costs.

Capital Projects Funds

The capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The following are the City's proprietary fund types:

Enterprise Funds

The enterprise funds are used to account for the City's water and sewer operations. These funds are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund

The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. The City's fiduciary funds include an expendable trust fund and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

To make a clear distinction between fixed assets related to a specific fund and those of general government, and between long-term liabilities related to a specific fund and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

The general fixed assets account group is used to account for all fixed assets of the City, except those accounted for in the proprietary funds. These assets do not represent financial resources available for expenditure.

General Long-Term Obligations Account Group

The general long-term obligations account group is used to account for all unmatured long-term obligations of the City, except those accounted for in the proprietary funds.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund 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. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust and agency funds. The full accrual basis of accounting is followed for the proprietary fund types.

Revenue 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 of 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, state levied locally shared taxes (including gasoline tax and motor vehicle license tax), grants, charges for services, fines and forfeitures, and interest.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim as of December 31, 2002, but which were levied to finance 2003 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, 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 and the appropriations ordinance are subject to amendment throughout the year with the legal restriction that appropriations by fund cannot exceed estimated resources, as certified. All funds, other than agency funds, legally are required to be budgeted and appropriated.

Budgetary information for the Self-Insurance internal service fund is not reported because it is not included in the entity for which the "appropriated budget" is adopted.

Tax Budget

A budget of estimated revenues and expenditures for all funds is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

Estimated Resources

The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

collected will be greater than or less than prior estimates and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent amounts from the amended official certificate of estimated resources in effect at the time final appropriations were passed by the City Council.

Appropriations

A temporary appropriations ordinance to control the level of expenditures for all funds may be passed on or about January 1 of each year, for the period January 1 to March 31. An annual appropriations ordinance must be passed by April 1 of each year, for the period January 1 to December 31. Appropriations may not exceed estimated resources as established in the amended official certificate of estimated resources. Several appropriation ordinances were legally enacted by the City Council during the year. The budget figures which appear in the statements of budgetary comparisons represent the appropriated budget amounts and all supplemental appropriations.

Budgeted Level of Expenditures

Administrative control is maintained through the establishment of detailed line-item budgets. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by the City Council. City Council approves appropriations at the department level in the General fund and at the fund level for all other funds. The appropriations set by the City Council must remain fixed unless amended by City Council resolution. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within the City Council's appropriated amount.

Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balance for subsequent-year expenditures for governmental fund types and the expendable trust fund and reported in the notes to the financial statements for the proprietary fund types.

Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding year and are not reappropriated.

D. Cash and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Cash and cash equivalents that are held separately for the City by fiscal agents and not held with the City Treasurer are recorded on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents".

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Investments are reported at fair value, except for repurchase agreements which are reported at cost. Fair value is based on quoted market prices. 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, 2002.

The City has allocated interest earnings according to Ohio statutes, grant requirements, or debt related restrictions. As such, interest revenue credited to the General fund during 2002 was \$15,282, which includes \$11,771 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months, and not purchased from the pool, are reported as investments.

E. Materials and Supplies Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2002, 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.

G. Restricted Assets

Restricted assets represent utility deposits from customers that are restricted because their use is limited to the payment of unpaid utility bills or refunding the deposit to the customer.

H. Fixed Assets

The fixed asset values were initially determined at December 31, 1996, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were used. Donated fixed assets are capitalized at fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

General Fixed Assets

General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in the governmental fund types, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported as these assets are immovable and of value only to the City.

Proprietary Fund Fixed Assets

Fixed assets reflected in the proprietary funds are stated at historical cost or estimated historical cost and are updated for the cost of additions and reductions during the year. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

<u>Asset Category</u>	<u>Estimated Lives</u>
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	10-15 years
Vehicles	6 years
Water and Sewer Lines	50 years

Capitalization of Interest

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from the temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2002, there was no capitalized interest cost incurred on enterprise fund construction projects.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables".

J. 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 that 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.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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.

For governmental fund types, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. For the proprietary fund types, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable resources. Payments made more than thirty-one days after year end are considered not to have used current available expendable resources. Capital leases and bonds are reported as liabilities in the general long-term obligations account group until due. Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the appropriate fund.

L. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to the enterprise funds prior to 2002 that is not subject to repayment. These assets are recorded at their fair market value on the date donated.

Capital contributions received from other governments and private sources subsequent to 2001 are recorded as revenues and retained earnings. Capital contributions from other funds continue to be reported as contributed capital.

M. Reserves of Fund Equity

The City records reservations for portions of fund balance that are segregated for specific future use or which do not represent available expendable resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for notes receivable and encumbrances.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Estimates

The preparation of 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.

P. Total Columns on General Purpose Financial Statements

Total columns on the general purpose financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CORRECTION OF ERROR AND RESTATEMENT OF PRIOR YEAR FUND BALANCE

The City has made loans to various businesses for economic development. These loans are usually required to be repaid with interest to the City, who in turn is able to loan the money to other businesses. During 2001, the City recorded an incorrect receivable for outstanding notes in the CDBG and FHA HPG Revolving Loan special revenue funds. The restatement resulted in an increase in fund balance of the special revenue funds of \$9,515, from \$977,870 to \$987,385.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2002, the City Beautification special revenue fund had a deficit fund balance of \$9,630. The City meet requirements of Ohio law by maintaining a positive cash fund balance in this fund. The deficit occurred due to the recording of accruals to meet the requirements of generally accepted government accounting principles.

At December 31, 2002, the Self-Insurance internal service fund had deficit retained earnings, in the amount of \$141,609, which was the result of claims expenses and the costs associated with claims

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

processing exceeding premiums charged for the payment of those claims. The City implemented a 24 percent increase in premiums on January 1, 2003.

B. Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2002.

Fund Type/Fund/ Department	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
Planning Commission	\$6,396	\$6,692	\$296
Principal Retirement	4,055	200,055	196,000
Operating Transfers - Out	733,000	734,556	1,556

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Enterprise Funds 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/expenses 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/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types and the expendable trust fund (GAAP basis). Material encumbrances are disclosed in the notes for the proprietary fund types (GAAP basis).
4. For the proprietary funds, the acquisition and construction of fixed assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

5. Although not part of the appropriated budget, the Self-Insurance internal service fund is included as part of the reporting entity when preparing financial statements that conform with GAAP.

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

Excess of Revenues and Other Financing Sources
Over Expenditures and Other Financing Uses
All Governmental Fund Types

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$202,471	\$13,902	\$4,068	\$76,361
<u>Increases (Decreases) Due To</u>				
Revenue Accruals:				
Accrued 2001, Received in Cash 2002	428,969	23,287	0	0
Accrued 2002, Not Yet Received in Cash	(368,164)	(14,821)	0	0
Expenditure Accruals:				
Accrued 2001, Paid in Cash 2002	(95,823)	(26,519)	(3,332)	(2,401)
Accrued 2002, Not Yet Paid in Cash	123,709	38,760	0	6,036
Cash Adjustments:				
Unrecorded Activity 2001	1,001	2,822	0	2,269
Unrecorded Activity 2002	(1,606)	(1,238)	0	0
Notes Receivable - Repayments	0	13,382	0	0
Materials and Supplies Inventory	(4,039)	1,781	0	
Prepaid Items	(1,514)	(122)	0	0
Advances - In	25,000	0	0	0
Advances - Out	0	0	0	(25,000)
Encumbrances Outstanding at Year End (Budget Basis)	(36,316)	(30,337)	0	(50,800)
Budget Basis	<u>\$273,688</u>	<u>\$20,897</u>	<u>\$736</u>	<u>\$6,465</u>

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Net Income (Loss)/Excess of Revenues Over Expenses
All Enterprise Fund Types

	Enterprise
GAAP Basis	\$2,407,357
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2001, Received in Cash 2002	587,854
Accrued 2002, Not Yet Received in Cash	(810,523)
Expense Accruals:	
Accrued 2001, Paid in Cash 2002	(390,260)
Accrued 2002, Not Yet Paid in Cash	287,074
Cash Adjustments:	
Unrecorded Activity 2002	(746)
Materials and Supplies Inventory	(3,526)
Prepaid Items	(7,196)
Acquisition of Fixed Assets	(1,441,082)
Depreciation Expense	97,209
Loss on Disposal of Fixed Assets	390
Proceeds of Bonds	220,000
Proceeds of OPWC Loan	28,000
Bond Principal Retirement	(320,000)
OWDA Principal Retirement	(58,430)
OPWC Principal Retirement	(700)
Excess Revenues Under Expenses for Nonbudgeted Fund	0
Encumbrances Outstanding at Year End (Budget Basis)	(59,339)
Budget Basis	\$536,582

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

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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 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;
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).

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the City had \$1,477 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents".

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the City's deposits was \$419,457 and the bank balance was \$359,529. Of the bank balance, \$116,787 was covered by federal depository insurance and \$242,742 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Category 1	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$0	\$711,342	\$711,342	\$711,357
City of Port Clinton Bonds	54,638	0	54,638	54,638
	<u>\$54,638</u>	<u>\$711,342</u>		
STAR Ohio			1,769,959	1,769,959
			<u>\$2,535,939</u>	<u>\$2,535,954</u>

The classification of cash and cash equivalents and investments on the combined balance sheet is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting". A reconciliation between the classification of cash and cash equivalents and investments on the combined balance sheet and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,956,873	\$0
Cash on Hand	(1,477)	0
Investments:		
Repurchase Agreements	(711,342)	711,342
City of Port Clinton Bonds	(54,638)	54,638
STAR Ohio	(1,769,959)	1,769,959
GASB Statement No. 3	<u>\$419,457</u>	<u>\$2,535,939</u>

NOTE 7 - 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 2002 represent the collection of 2001 taxes. Real property taxes were levied in 2002 after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or 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 real and tangible personal property taxes were levied in 2002 after October 1, 2002, on the assessed values as of December 31, 2001, the lien date. These taxes will be collected in and are intended

**CITY OF PORT CLINTON
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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

to finance 2003 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2002 (other than public utility property) represent the collection of 2002 taxes. Tangible personal property taxes received in 2002 were levied after October 1, 2001, on the true value as of December 31, 2001. Tangible personal property is currently assessed at 25 percent of true value for equipment and 24 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or 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 delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2002, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2002 operations.

The full tax rate for all City operations for the year ended December 31, 2002, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural/Residential	\$77,612,470
Commercial/Industrial	27,550,280
Public Utility Property	
Real	16,870
Personal	6,918,310
Tangible Personal Property	9,200,720
Total Assessed Value	\$121,298,650

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

**CITY OF PORT CLINTON
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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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 - RECEIVABLES

Receivables at December 31, 2002, consisted of taxes; special assessments; accounts (billings for user charged services, including unbilled utility services); interfund; notes; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible, except for accounts receivable related to utility services.

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$203,208	\$259,464	\$462,672
Less Allowance for Uncollectibles	(31,697)	(40,752)	(72,449)
Net Accounts Receivable	\$171,511	\$218,712	\$390,223

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Estate Tax	\$824
Fines and Forfeitures	298
Local Government	211,266
Homestead and Rollback	27,029
Personal Property Tax Exemption	4,603
Liquor Permits	9,956
Total General Fund	253,976
Special Revenue Funds	
Main Thoroughfare	
Permissive Motor Vehicle License Tax	10,206
State Highway	
Gasoline Tax	6,601
Motor Vehicle License Tax	4,214
Total State Highway	10,815

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Street Maintenance		
Gasoline Tax		81,409
Motor Vehicle License Tax		45,754
Total Street Maintenance		127,163
Total Special Revenue Funds		148,184
Enterprise Fund		
Sewer Fund		
STAG		333,086
Ohio Public Works Commission		14,765
Total Sewer Fund		347,851
Total Enterprise Fund		347,851
Total All Funds		\$750,011

NOTE 10 - NOTES RECEIVABLE

A summary of the changes in notes receivable during 2002 follows:

	Balance 12/31/01	New Loans	Repayments	Written Off During 2002	Balance 12/31/02
Special Revenue Funds					
CDBG					
Individual Loans	\$161,849	\$0	\$0	\$0	\$161,849
FHA HPG Revolving Loan					
Individual Loans	175,571	0	13,382	0	162,189
Total	\$337,420	\$0	\$13,382	\$0	\$324,038

Notes receivable are reduced each year by the amount of loans which have been determined to be uncollectible. In addition, some loans have provisions that a portion of the loan will be forgiven and need not be repaid if certain requirements are met. Notes receivable on the combined balance sheet are presented net of amounts written off.

NOTE 11 - FIXED ASSETS

A. General Fixed Assets

A summary of the changes in general fixed assets during 2002 is as follows:

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

	Balance 12/31/01	Additions	Reductions	Balance 12/31/02
Land	\$546,482	\$20,787	\$0	\$567,269
Buildings and Improvements	1,581,621	0	0	1,581,621
Furniture, Fixtures, and Equipment	1,516,961	58,940	39,822	1,536,079
Vehicles	1,429,448	42,395	19,856	1,451,987
Total General Fixed Assets	\$5,074,512	\$122,122	\$59,678	\$5,136,956

B. Enterprise Fund Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 2002, follows:

	Water	Sewer	Total Enterprise Funds
Land	\$26,517	\$8,760	\$35,277
Buildings and Improvements	973,100	1,268,400	2,241,500
Furniture, Fixtures, and Equipment	246,408	497,964	744,372
Vehicles	57,770	51,929	109,699
Water and Sewer Lines	2,035,683	399,929	2,435,612
Construction in Progress	0	2,325,696	2,325,696
Total	3,339,478	4,552,678	7,892,156
Less Accumulated Depreciation	1,391,353	1,537,966	2,929,319
Total Fixed Assets Net of Accumulated Depreciation	\$1,948,125	\$3,014,712	\$4,962,837

NOTE 12 - INTERFUND ASSETS/LIABILITIES

At December 31, 2002, the General fund had an interfund receivable and the Self-Insurance internal service fund had an interfund payable, in the amount of \$49,076. The CDBG special revenue fund had an interfund receivable and the FHA HPG Revolving Loan special revenue fund had an interfund payable, in the amounts \$1,930.

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

NOTE 13 - 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 2002, the City contracted through the Ohio Government Risk Management Plan, an insurance pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$11,847,736	\$1,000
Special Property	998,512	1,000
Electronic Equipment	89,400	500
Electronic Media	60,000	500
Extra Expense	20,000	500
Arson Reward	\$5,000	\$0
Fire Department Service Charge	1,000	0
Outdoor Property	100,000	0
Personal Effects	2,500	0
Pollution Clean Up and Removal	25,000	0
Property Off Premises	10,000	0
Accounts Receivable	100,000	0
Builders Risk	500,000	0
Fine Arts	25,000	0
Fire Protection Services	5,000	0
Newly Acquired or Constructed Building	500,000	0
Newly Acquired Personal Property	100,000	0
Valuable Papers and Records	100,000	0
Utility Services	25,000	0
Property in Transit	25,000	0
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	2,000,000	0

**CITY OF PORT CLINTON
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**Notes to the General-Purpose Financial Statements
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(Continued)**

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
Medical Expense		
Occurrence	10,000	5,000
Aggregate	50,000	5,000
Crime	25,000	0/100
Auto Liability	2,000,000	250/500
Medical Payments	5,000	250/500
Property Damage	50,000	250/500
Property Damage-Emergency	100,000	250/500

There has been no significant reduction in insurance coverage from 2001, and no insurance settlement has exceeded insurance coverage during the last three years.

The City has elected to provide 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 participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. For 2002, 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, 2002, the City had no monies on deposit with OME-RESA.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$35,000 per individual. Claims ranging from \$35,000 to \$50,000 are paid by OME-RESA, and claims in excess of \$50,000 are covered by stop-loss insurance. Settled claims have not exceeded the stop-loss coverage for the last three years.

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

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2002, is estimated by the third party administrator at \$92,533.

The changes in the claims liability for 2002 and 2001 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2002	\$68,211	\$449,048	\$424,726	\$92,533
2001	88,718	351,552	372,059	68,211

For 2002, 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 14 - CONTRACTUAL COMMITMENTS

The City has several outstanding contracts for professional services. The following amounts remain on these contracts as of December 31, 2002:

Vendor	Contract Amount	Amount Paid as of 12/31/02	Outstanding Balance
Don Waggoner	\$18,500	\$12,243	\$6,257
P.S. Construction	5,300	0	5,300
Hull and Associates	4,000	0	4,000
Zimmerman Paint Construction	5,170	0	5,170
G.G.J. Engineers	786,350	131,738	654,612
Bay Mechanical	533,142	335,626	197,516
Mosser Construction	6,828,000	627,321	6,200,679

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

NOTE 15 - COMPENSATED ABSENCES

The criteria for determining vacation and sick leave benefits are 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 of three hundred seventy-five hours for employees who retire under a collective bargaining agreement or five hundred hours for all other employees.

NOTE 16 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

The City contributes to the Ohio Public Employees Retirement System (System), a cost-sharing multiple employer defined benefit pension plan administered by the Ohio Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System 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.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 8.55 percent was the portion used to fund pension obligations for 2002. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the years ended December 31, 2002, 2001, and 2000, were \$149,949, \$167,500, and \$122,167, respectively; 72 percent has been contributed for 2002 and 100 percent has been contributed for 2001 and 2000. The unpaid contribution for 2002, in the amount of \$42,443, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (Fund), a cost-sharing multiple employer defined benefit pension plan administered by the Fund's Board of Trustees. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and

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**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
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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 19.5 percent for police (11.75 percent was the portion used to fund pension obligations for 2002). Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2002, 2001, and 2000, were \$75,615, \$73,893, and \$77,579, respectively; 70 percent has been contributed for 2002 and 100 percent has been contributed for 2001 and 2000. The unpaid contribution for 2002, in the amount of \$22,458, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTE 17 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (System) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system 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 System is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 5 percent was the portion used to fund health care for 2002.

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually, and an additional increase in total payroll of .5 percent to 6.3 percent based on additional pay increases. Health care premiums were assumed to increase 4 percent annually.

OPB are financed through employer contributions and investment earnings. 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.

At December 31, 2002, the total number of benefit recipients eligible for OPB through the System was 402,041. As of December 31, 2001, the actuarial value of net assets available for future OPB payments was \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively. The City's actual contributions for 2002 which were used to fund OPB were \$87,690.

B. Ohio Police and Fire Pension Fund

The Ohio Police and Fire Pension Fund (Fund) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly 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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

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 the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent; 7.75 percent was the portion used to fund health care for 2002. 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.

The number of participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for firefighters. The City's actual contributions for 2002 that were used to fund postemployment benefits were \$49,874 for police. The Fund's total health care expenses for the year ended December 31, 2001, (the latest information available), were \$122,298,771, which was net of member contributions of \$6,874,699.

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2002, was as follows:

	Interest Rate	Balance 12/31/01	Additions	Reductions	Balance 12/31/02
<u>General Long-Term Obligations</u>					
General Obligation Bonds:					
1994 General Obligation Bonds	6.22%	\$54,923	\$0	\$4,055	\$50,868
2001 General Obligation Bonds	4.089-4.9	1,299,000	0	1,299,000	0
2002 General Obligation Bonds	2.855	0	1,051,000	0	1,051,000
Total General Obligation Bonds		1,353,923	1,051,000	1,303,055	1,101,868
Special Assessment Bonds:					
1990 Special Assessment Bonds	7.4	63,000	0	7,000	56,000
1994 Special Assessment Bonds	6.22	94,077	0	6,945	87,132
1995 Special Assessment Bonds	6.5	36,000	0	2,000	34,000
2000 Special Assessment Bonds	5.75	52,877	0	2,561	50,316
Total Special Assessment Bonds		245,954	0	18,506	227,448
Compensated Absences Payable		113,857	0	7,091	106,766
Due to Other Governments		77,484	80,465	77,484	80,465
Capital Leases Payable	5.73	105,528	39,218	37,293	107,453
Total General Long-Term Obligations		1,896,746	1,170,683	1,443,429	1,624,000

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Enterprise Fund Long-Term Obligations

General Obligation Bonds:					
2001 General Obligation Bonds	4.089-4.9	320,000	0	320,000	0
2002 General Obligation Bonds	2.855	0	220,000	0	220,000
Total General Obligation Bonds		320,000	220,000	320,000	220,000
2000 OWDA Loan Payable	5.54	990,770	0	58,430	932,340
2002 OPWC Loan Payable	0	0	28,000	700	27,300
Compensated Absences Payable		69,273	9,920	0	79,193
Total Enterprise Fund Long-Term Obligations		1,380,043	257,920	379,130	1,258,833
Total Long-Term Obligations		\$3,276,789	\$1,428,603	\$1,822,559	\$2,882,833

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton. The general obligation bonds presented as a liability in the general long-term obligations account group are payable from unvoted property tax revenues. The general obligation bonds presented as liabilities in the Water and Sewer enterprise funds pledge their respective revenues for repayment. In the event the enterprise fund revenues are not sufficient to meet principal and interest requirements, the bonds will be paid from the General fund.

2002 General Obligation Refunding Bonds

On November 22, 2002, the City issued \$1,271,000 in general obligation refunding bonds with an interest rate of 2.855 percent to refund \$1,271,000 in general obligation bonds with an interest rate of 4.089 percent to 4.9 percent. The refunding bond issue fully extinguished the old debt. The refunding of the general obligation bonds resulted in an economic gain of \$15,898 and a cash flow loss of \$5,018.

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.

Compensated Absences Payable

The compensated absences liability will be paid from the fund from which the employees' salaries are paid.

Due to Other Governments

The due to other governments liability, representing the City's contractually required pension obligation, will be paid from the fund from which the employees' salaries are paid.

Capital Leases Payable

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

OWDA Loan Payable

The City entered into a loan agreement with the Ohio Water Development Authority for construction of a water tower. The loan will be paid from resources of the Water enterprise fund.

OPWC Loan Payable

The City entered into a loan agreement with the Ohio Public Works Commission for improvements at the wastewater treatment plant. The loan is interest free. The loan will be paid from resources of the Sewer enterprise fund.

The City's legal debt margin was \$11,639,535 at December 31, 2002.

The following is a summary of the City's future annual debt service requirements for general long-term obligations:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2003	\$166,956	\$33,911	\$18,653	\$14,649
2004	171,917	28,258	18,808	13,415
2005	176,052	23,214	18,973	12,171
2006	181,840	18,053	19,147	10,919
2007	186,802	12,724	19,331	9,657
2008-2012	209,455	12,194	93,340	28,580
2013-2016	8,846	822	39,196	4,340
	<u>\$1,101,868</u>	<u>\$129,176</u>	<u>\$227,448</u>	<u>\$93,731</u>

The City's future annual debt service requirements payable from the enterprise funds were as follows:

Year	General Obligation Bonds		OWDA Loan		OPWC Loan
	Principal	Interest	Principal	Interest	Principal
2003	\$34,099	\$6,439	\$20,183	\$30,292	\$700
2004	35,138	5,307	42,602	53,348	1,400
2005	36,003	4,304	44,963	55,988	1,400
2006	37,215	3,277	47,453	53,497	1,400
2007	38,253	2,214	50,082	50,868	1,400
2008-2012	39,292	1,122	295,235	209,515	7,000
2013-2017	0	0	386,592	118,158	7,000
2018-2022	0	0	45,230	5,150	7,000
	<u>\$220,000</u>	<u>\$22,663</u>	<u>\$932,340</u>	<u>\$581,816</u>	<u>\$27,300</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. 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. New capital leases are reflected in the accounts "Capital Outlay" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments have been reclassified and are reflected as debt service expenditures on the combined financial statements for governmental funds. These expenditures are reported as capital outlay expenditures on the budgetary statements.

Equipment has been capitalized in the general fixed assets account group, in the amount of \$166,218. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in 2002 were \$37,293 in the governmental funds.

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, 2002.

Year Ending December 31,	GLTDAG
2003	\$43,339
2004	43,338
2005	30,266
Subtotal	116,943
Less Amount Representing Interest	(9,490)
Present Value of Minimum Lease Payments	\$107,453

NOTE 20 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers for water and sewer services. Financial segment information as of and for the year ended December 31, 2002, was as follows:

	Water	Sewer	Total Enterprise Funds
Operating Revenues	\$1,214,319	\$1,302,744	\$2,517,063
Depreciation	56,257	40,952	97,209
Operating Income	217,565	381,964	599,529
Grants	0	1,890,805	1,890,805
Net Income	151,235	2,256,122	2,407,357

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

Operating Transfers Out	0	7,000	7,000
Contributed Capital	186	5,315	5,501
Fixed Assets			
Additions	186	2,335,751	2,335,937
Reductions	0	1,300	1,300
Net Working Capital	525,592	445,789	971,381
Long-Term Obligations			
General Obligation Bonds Payable	\$15,000	\$205,000	\$220,000
OWDA Loan Payable	932,340	0	932,340
OPWC Loan Payable	0	27,300	27,300
Compensated Absences Payable	23,691	50,280	73,971
Total Assets	2,552,366	4,483,681	7,036,047
Total Equity	1,525,194	3,210,395	4,735,589
Encumbrances Outstanding at Year End (Budget Basis)	10,025	49,314	59,339

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.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2002
(Continued)**

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

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.

B. Federal and State Grants

For the period January 1, 2002, to December 31, 2002, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2002**

Federal Grantor <i>Pass Through Grantor</i> Program Title	Federal CFDA Number	Pass Through Entity Number	Expenditures
U.S. Department of Housing and Urban Development			
<i>Pass-through Ohio Department of Development:</i>			
Community Development Block Grant- Entitlement Grants	14.228	-	<u>\$2,880</u>
U.S. Environmental Protection Agency			
Surveys, Studies, Investigations and Special Purpose Grants	66.606	-	<u>618,316</u>
U.S. Department of Justice			
<i>Pass-through the Ohio Office of Criminal Justice Services:</i>			
COPS Grant	16.710	2002SHWX0598	<u>28,583</u>
TOTAL FEDERAL AWARDS EXPENDITURES			<u><u>\$649,779</u></u>

The accompanying notes are an integral part of this schedule.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended December 31, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAM

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible citizens to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures (the Schedule). Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2002, the gross amount of loans outstanding under this program was \$324,038.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require that the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

City of Port Clinton
Ottawa County
1868 E. Perry Street
Port Clinton, Ohio 43452-1497

To the City Council:

We have audited the financial statements of the City of Port Clinton, Ottawa County, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated July 24, 2003. 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.

Compliance

As part of obtaining 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings as item 2002-001. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated July 24, 2003.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 24, 2003.

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 24, 2003



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO MAJOR FEDERAL PROGRAMS AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

City of Port Clinton
Ottawa County
1868 E. Perry Street
Port Clinton, Ohio 43452-1497

To the City Council:

Compliance

We have audited the compliance of the City of Port Clinton, Ottawa County, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2002. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the City in a separate letter dated July 24, 2003.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Betty Montgomery
Auditor of State

July 24, 2003

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Program (list):	Surveys, Studies, Investigations and Special Purpose Grants 66.606
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2002-001

Ohio Revised Code § 5705.41(B) prohibits a subdivision from making an expenditure unless it has been lawfully appropriated. The following fund/ line item had expenditures in excess of appropriations for the fiscal year ended December 31, 2002:

**FINDING NUMBER 2002-001
 (Continued)**

GENERAL FUND:	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Principal Retirement	<u>\$4,055</u>	<u>\$200,055</u>	<u>\$196,000</u>

The failure to limit spending to only those amounts appropriated by the City Council could allow expenditures to exceed available resources and create deficit fund balances. We recommend that the City make amendments to appropriations whenever necessary to keep expenditures from exceeding appropriations. The City Council should monitor the budget to ensure that all expenditures and encumbrances have been appropriated. This variance was caused by a debt refunding accounting adjustment to record the retirement of the old debt which had not been appropriated.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

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 2, 2003**