



**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 East Perry Street
Port Clinton, Ohio 43452-1497

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Street Maintenance Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and

the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

December 6, 2005

CITY OF PORT CLINTON

Management's Discussion and Analysis For the Year Ended December 31, 2004

The discussion and analysis of the City of Port Clinton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2004. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Highlights for 2004 are as follows:

In total, the City's net assets increased \$1,145,182, or almost 9 percent. The 3 percent increase in net assets for governmental activities was insignificant but the 17 percent increase for business-type activities was a fairly sizable change and related to activities in the Sewer enterprise fund (a combination of charges for services and grants for the continuing construction of the wastewater treatment plant).

In 2002, the City hired an engineering firm to design a facility that would increase the capacity of the wastewater treatment plant to incorporate three overflow structures. This was in response to a concern by both the Ohio and US EPA.

The City's Water and Sewer enterprise funds both reflect an operating income for 2004; however the Water enterprise fund basically broke even (reflects an operating income of \$444).

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2004. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

CITY OF PORT CLINTON

Management's Discussion and Analysis For the Year Ended December 31, 2004

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water and sewer operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounts for the City's self-insured program for employee health care benefits.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2004 and 2003.

CITY OF PORT CLINTON

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<u>Assets</u>						
Current and Other Assets	\$4,131,530	\$4,406,031	\$1,385,541	\$1,756,376	\$5,517,071	\$6,162,407
Capital Assets, Net	5,736,794	5,632,253	11,619,501	10,529,500	17,356,295	16,161,753
Total Assets	9,868,324	10,038,284	13,005,042	12,285,876	22,873,366	22,324,160
<u>Liabilities</u>						
Current and Other Liabilities	770,963	1,012,940	274,392	986,586	1,045,355	1,999,526
Long-Term Liabilities	1,177,679	1,322,947	6,354,442	5,850,979	7,532,121	7,173,926
Total Liabilities	1,948,642	2,335,887	6,628,834	6,837,565	8,577,476	9,173,452
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,869,245	4,628,568	5,349,381	4,747,674	10,218,626	9,376,242
Restricted	1,761,358	1,912,582	0	0	1,761,358	1,912,582
Unrestricted	1,289,079	1,161,247	1,026,827	700,637	2,315,906	1,861,884
Total Net Assets	\$7,919,682	\$7,702,397	\$6,376,208	\$5,448,311	\$14,295,890	\$13,150,708

As mentioned previously, there was a 3 percent increase in net assets for governmental activities and a review of the above table demonstrates only minor changes in assets and net assets. Only the liabilities had changes of any significance. As the City has now completed the Perry Street project, the liabilities for contracts and retainage payable were substantially less at year end and make up the largest change in current and other liabilities. The decrease in long-term liabilities was due to the retirement of debt.

Conversely, business-type activities had a somewhat sizable change in net assets with a 17 percent increase. While the change in total assets and the change in total liabilities were not very large, notice that total assets increased and total liabilities decreased, thus an increase in net assets. In 2003, the City had amounts due from other governments at year end (primarily OWDA monies for the wastewater treatment plant). Since there were not similar receivables at the end of 2004, current and other assets decreased. The City's capital assets increased from both additional construction in progress and various other acquisitions. These acquisitions are also reflected in the increase in invested in capital assets. As construction activities are coming to a close on the wastewater treatment plant, the liabilities associated with the construction (contracts and retainage payable) were considerably less than the prior year. Not only is this decrease reflected in current and other liabilities, but the reduction in liabilities overall contributed to the increase in unrestricted net assets.

CITY OF PORT CLINTON

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

Table 2 reflects the change in net assets for 2004 and 2003.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$330,875	\$569,041	\$2,715,204	\$2,518,352	\$3,046,079	3,087,393
Operating Grants, Contributions, and Interest	638,972	766,292	0	0	638,972	766,292
Capital Grants and Contributions	255,000	42,810	657,360	559,670	912,360	602,480
Total Program Revenues	<u>1,224,847</u>	<u>1,378,143</u>	<u>3,372,564</u>	<u>3,078,022</u>	<u>4,597,411</u>	<u>4,456,165</u>
General Revenues						
Property Taxes Levied for General Purposes	524,736	452,573	0	0	524,736	452,573
Municipal Income Taxes Levied for General Purposes	2,051,256	2,110,458	0	0	2,051,256	2,110,458
Other Local Taxes	151,690	151,653	0	0	151,690	151,653
Grants and Entitlements not Restricted to Specific Programs	798,546	536,904	0	0	798,546	536,904
Franchise Fees	37,152	31,041	0	0	37,152	31,041
Interest	23,703	19,167	0	0	23,703	19,167
Other Revenues	48,651	99,360	3,818	4,071	52,469	103,431
Total General Revenues	<u>3,635,734</u>	<u>3,401,156</u>	<u>3,818</u>	<u>4,071</u>	<u>3,639,552</u>	<u>3,405,227</u>
Total Revenues	<u>4,860,581</u>	<u>4,779,299</u>	<u>3,376,382</u>	<u>3,082,093</u>	<u>8,236,963</u>	<u>7,861,392</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,435,771	1,408,931	0	0	1,435,771	1,408,931
Fire	271,099	272,351	0	0	271,099	272,351
Ambulance	35,402	127,911	0	0	35,402	127,911
Public Health	233,914	213,095	0	0	233,914	213,095
Leisure Time Activities	180,728	231,372	0	0	180,728	231,372
Community Environment	270,101	228,937	0	0	270,101	228,937
Transportation	937,288	940,273	0	0	937,288	940,273
General Government	1,260,894	1,148,435	0	0	1,260,894	1,148,435
Interest and Fiscal Charges	44,338	52,762	0	0	44,338	52,762
Water	0	0	1,229,309	1,132,358	1,229,309	1,132,358
Sewer	0	0	1,192,937	1,028,555	1,192,937	1,028,555
Total Expenses	<u>4,669,535</u>	<u>4,624,067</u>	<u>2,422,246</u>	<u>2,160,913</u>	<u>7,091,781</u>	<u>6,784,980</u>
Increase in Net Assets Before Transfers	191,046	155,232	954,136	921,180	1,145,182	1,076,412
Transfers	26,239	(3,178)	(26,239)	3,178	0	0
Increase in Net Assets	<u>\$217,285</u>	<u>\$152,054</u>	<u>\$927,897</u>	<u>\$924,358</u>	<u>\$1,145,182</u>	<u>\$1,076,412</u>

CITY OF PORT CLINTON

**Management's Discussion and Analysis
For the Year Ended December 31, 2004**

The City had a decrease in program revenues for governmental activities (those which can be directly associated with a particular activity) in 2004. The greatest decrease occurred in charges for services. The City discontinued providing ambulance service after March 2004. This not only decreased revenue but also decreased the corresponding expenses reflected for ambulance. In 2004, the City received a \$100,000 grant to construct a dock. This amount is reflected in program revenues as a capital grant. A comparison of general revenues as well as expenses reveals amounts quite comparable to 2003, with the exception of ambulance expenses previously explained.

Safety related activities (police, fire, and ambulance), as expected, continue to account for the greatest of the City's expenses (37 percent for 2004). The majority of these costs are police department related since the City has a volunteer fire department and ambulance service has been discontinued. The City's second largest expense is related to general government costs, those costs primarily associated with running the City (costs consist of the mayor's office, the City auditor and treasurer, the law director, safety service director, income tax department, building and grounds maintenance, and insurances, etc).

For business-type activities, program revenues make up over 99 percent of total revenues. This is, of course, charges for services for water and sewer services. Revenues and expenses for these programs were also very comparable to the prior year.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2004	2003	2004	2003
Security of Persons and Property				
Police	\$1,435,771	\$1,408,931	\$1,178,494	\$1,320,004
Fire	271,099	272,351	204,624	210,702
Ambulance	35,402	127,911	14,474	(14,724)
Public Health	233,914	213,095	94,919	74,033
Leisure Time Activities	180,728	231,372	14,558	146,431
Community Environment	270,101	228,937	75,565	(67,291)
Transportation	937,288	940,273	577,776	403,139
General Government	1,260,894	1,148,435	1,239,940	1,120,868
Interest and Fiscal Charges	44,338	52,762	44,338	52,762
Total Expenses	\$4,669,535	\$4,624,067	\$3,444,688	\$3,245,924

With the City's greater dependence on general revenues for operations in 2004 (up over 6 percent), the City's dependence on the largest source, municipal income taxes, is critical. As noted above, the City's police and fire operations are almost entirely funded through general revenues. The same can be said for general government operations. Both the public health and leisure time activities programs benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of cemetery lot sales for public health and sports league fees, parking fees, and

CITY OF PORT CLINTON

Management's Discussion and Analysis For the Year Ended December 31, 2004

concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Street Maintenance special revenue fund. The General Fund experienced a small decrease in fund balance; however, this is primarily the result of transfers to support the activities of other funds rather than from operations. The General Fund continues to receive revenues in excess of expenditures. The Street Maintenance fund had a sizable increase in fund balance; however, this is largely the result of transfers from the General Fund to subsidize operations. While revenues were greater in this fund in 2004 and expenditures remained fairly constant, expenditures continue to exceed revenues.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. As can be seen on the statement of activities, program revenues, primarily charges for services, have been sufficient to cover the operating expenses these funds. Although the Sewer fund currently has a positive operating income, this fund is accumulating a significant amount of debt for the major renovations in progress at the wastewater treatment plant. The City has been increasing sewer rates annually. In 2002, rates increased 4 percent, 4 percent in 2003, and 24 percent in 2004.

BUDGETARY HIGHLIGHTS

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

The City's most significant budgeted fund is the General Fund. While minor modifications were made for all revenue sources from the original to final budget, both income taxes and intergovernmental revenues were changed the most. A review of actual revenues demonstrates that the new estimate for intergovernmental sources was realized and unfortunately the same did not hold true for income taxes.

The largest increase in budgeted expenditures was for general government activities; however, the City held spending and actual expenditures are comparable to the original estimate. Although the fund balance in the General Fund decreased from the prior year, once again, this decrease was the result of subsidizing activities of other funds. Revenues continued to exceed expenditures for General Fund operations.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2004, was \$4,869,245 and \$5,349,381, respectively (net of accumulated depreciation and related debt). For governmental activities, additions included construction in progress for the City's transient boat dock, a new harbor patrol boat, and five new police cruisers. For business-type activities, there was an increase in construction in progress for the wastewater treatment plant renovations and the City purchased a stand-by generator. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

CITY OF PORT CLINTON

Management's Discussion and Analysis For the Year Ended December 31, 2004

Debt - At December 31, 2004, the City had \$762,995 in general obligation bonds and \$189,987 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$150,763 in general obligation bonds, \$5,850,782 in OWDA loans, and \$268,575 in OPWC loans outstanding at year end.

In addition, the City's long-term obligations also include capital leases and compensated absences. For further information regarding the City's long-term obligations, refer to Note 16 to the basic financial statements.

CURRENT ISSUES

The City is still in the construction phase of the wastewater hydraulic expansion. As a result of an EPA mandate for this upgrade, the City's sewer rates had to be increased. These increases thus far have been 4 percent in January 2002, 4 percent in April 2003, 4 percent in April 2004, and 20 percent in June 2004. In addition, in April 2005 Tier I customers rates were increased 4 percent and Tier II customers increased 20 percent. All of these increases are related to the ordinance passed in 2001 for an ongoing increase every year until the rates need to either increase more or level off. Water rates were also increased in 2005 by 8 percent. The City's current rates are the highest in the State of Ohio due to what needs to be done to comply with the US EPA Consent Decree. The City must comply by September 2006 in order to meet the State and Federal requirement for wastewater compliance standards. These standards are directly linked the City's sewer rates.

The City is currently in the planning stages for a number of infrastructure projects. These projects include both street resurfacing and waterfront development projects. These projects will be partially funded with grants through the Issue II and State urban paving programs.

Another project currently in progress is the extension of a sewer line to Camp Perry. The line will run through Erie Township and along Lakeshore Drive to allow for new customer service.

The City is also involved with several park projects. There is a revitalization and improvement of Lakeview Park project underway. A special ad hoc committee (Friends of Lakeview Park) is assisting with this project. In addition, the City is in the final planning stages for constructing a new park next to City Hall. New ball fields will be constructed with the help of a Natureworks grant.

In March 2005, the City issued \$500,000 in bond anticipation notes to purchase a building to house the fire department. Also in 2005, the City has made modifications to the employee medical coverage which have a projected savings of \$110,000 in premiums.

REQUEST FOR INFORMATION

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

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CITY OF PORT CLINTON
Statement of Net Assets
December 31, 2004

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,487,046	\$882,853	\$2,369,899
Cash and Cash Equivalents with Fiscal Agents	108,963	0	108,963
Accounts Receivable	57,272	452,052	509,324
Accrued Interest Receivable	504	0	504
Due from Other Governments	607,810	0	607,810
Municipal Income Taxes Receivable	584,120	0	584,120
Other Local Taxes Receivable	11,789	0	11,789
Internal Balances	(15,920)	15,920	0
Prepaid Items	42,625	8,995	51,620
Materials and Supplies Inventory	29,866	25,721	55,587
Property Taxes Receivable	512,485	0	512,485
Notes Receivable	355,337	0	355,337
Special Assessments Receivable	349,633	0	349,633
Nondepreciable Capital Assets	646,557	8,332,289	8,978,846
Depreciable Capital Assets, Net	5,090,237	3,287,212	8,377,449
Total Assets	9,868,324	13,005,042	22,873,366
<u>Liabilities</u>			
Accrued Wages Payable	40,995	12,744	53,739
Accounts Payable	72,129	37,682	109,811
Contracts Payable	11,400	83,794	95,194
Retainage Payable	0	82,307	82,307
Due to Other Governments	93,683	20,973	114,656
Accrued Interest Payable	2,951	358	3,309
Deferred Revenue	502,372	0	502,372
Claims Payable	47,433	0	47,433
Deposits Held and Due to Others	0	36,534	36,534
Long-Term Liabilities			
Due Within One Year	306,919	294,095	601,014
Due in More Than One Year	870,760	6,060,347	6,931,107
Total Liabilities	1,948,642	6,628,834	8,577,476
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,869,245	5,349,381	10,218,626
Restricted for			
Debt Service	64,646	0	64,646
Capital Projects	508,432	0	508,432
Other Purposes	1,188,280	0	1,188,280
Unrestricted	1,289,079	1,026,827	2,315,906
Total Net Assets	\$7,919,682	\$6,376,208	\$14,295,890

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,435,771	\$11,926	\$90,351	\$155,000
Fire	271,099	60,000	6,475	
Ambulance	35,402	19,778	1,150	
Public Health	233,914	138,978	17	
Leisure Time Activities	180,728	56,120	10,050	100,000
Community Environment	270,101	12,973	181,563	
Transportation	937,288	10,146	349,366	
General Government	1,260,894	20,954		
Interest and Fiscal Charges	44,338			
Total Governmental Activities	4,669,535	330,875	638,972	255,000
<u>Business-Type Activities</u>				
Water	1,229,309	1,198,184		29,106
Sewer	1,192,937	1,517,020		628,254
Total Business-Type Activities	2,422,246	2,715,204	0	657,360
Total	\$7,091,781	\$3,046,079	\$638,972	\$912,360

General Revenues

Property Taxes Levied for General Purposes

Municipal Income Taxes

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Fees

Interest

Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,178,494)		(\$1,178,494)
(204,624)		(204,624)
(14,474)		(14,474)
(94,919)		(94,919)
(14,558)		(14,558)
(75,565)		(75,565)
(577,776)		(577,776)
(1,239,940)		(1,239,940)
<u>(44,338)</u>		<u>(44,338)</u>
<u>(3,444,688)</u>	<u>0</u>	<u>(3,444,688)</u>
	(\$2,019)	(2,019)
	<u>952,337</u>	<u>952,337</u>
<u>0</u>	<u>950,318</u>	<u>950,318</u>
<u>(3,444,688)</u>	<u>950,318</u>	<u>(2,494,370)</u>
524,736		524,736
2,051,256		2,051,256
151,690		151,690
798,546		798,546
37,152		37,152
23,703		23,703
<u>48,651</u>	<u>3,818</u>	<u>52,469</u>
<u>3,635,734</u>	<u>3,818</u>	<u>3,639,552</u>
<u>26,239</u>	<u>(26,239)</u>	<u>0</u>
217,285	927,897	1,145,182
<u>7,702,397</u>	<u>5,448,311</u>	<u>13,150,708</u>
<u>\$7,919,682</u>	<u>\$6,376,208</u>	<u>\$14,295,890</u>

CITY OF PORT CLINTON
Balance Sheet
Governmental Funds
December 31, 2004

	<u>General</u>	<u>Street Maintenance</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$446,402	\$68,448	\$958,965	\$1,473,815
Accounts Receivable	57,272	0	0	57,272
Accrued Interest Receivable	487	0	17	504
Due from Other Governments	346,757	128,579	132,474	607,810
Municipal Income Taxes Receivable	584,120	0	0	584,120
Other Local Taxes Receivable	10,534	0	1,255	11,789
Prepaid Items	37,647	4,634	344	42,625
Materials and Supplies Inventory	20,029	9,837	0	29,866
Property Taxes Receivable	512,485	0	0	512,485
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	13,231	0	0	13,231
Notes Receivable	0	0	355,337	355,337
Special Assessments Receivable	0	0	349,633	349,633
Total Assets	<u>\$2,028,964</u>	<u>\$211,498</u>	<u>\$1,798,025</u>	<u>\$4,038,487</u>
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$30,228	\$10,767	\$0	\$40,995
Accounts Payable	47,199	7,383	17,547	72,129
Contracts Payable	11,400	0	0	11,400
Due to Other Governments	83,219	9,690	774	93,683
Deferred Revenue	1,042,601	109,248	477,085	1,628,934
Total Liabilities	<u>1,214,647</u>	<u>137,088</u>	<u>495,406</u>	<u>1,847,141</u>
<u>Fund Balance</u>				
Reserved for Unclaimed Monies	13,231	0	0	13,231
Reserved for Notes Receivable	0	0	335,337	335,337
Reserved for Encumbrances	70,598	3,118	51,505	125,221
<u>Unreserved, Reported in</u>				
General Fund	730,488	0	0	730,488
Special Revenue Funds	0	71,292	647,299	718,591
Debt Service Funds	0	0	54,795	54,795
Capital Projects Funds	0	0	213,683	213,683
Total Fund Balance	<u>814,317</u>	<u>74,410</u>	<u>1,302,619</u>	<u>2,191,346</u>
Total Liabilities and Fund Balance	<u>\$2,028,964</u>	<u>\$211,498</u>	<u>\$1,798,025</u>	<u>\$4,038,487</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2004

Total Governmental Fund Balance \$2,191,346

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,736,794

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:

Accounts Receivable	\$54,837	
Accrued Interest Receivable	504	
Due from Other Governments	479,781	
Municipal Income Taxes Receivable	223,175	
Other Local Taxes Receivable	8,519	
Property Taxes Receivable	10,113	
Special Assessments Receivable	349,633	
		1,126,562

An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities. (15,920)

Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued Interest Payable	(2,951)	
General Obligations Bonds Payable	(762,995)	
Special Assessment Bonds Payable	(189,987)	
Capital Leases Payable	(104,554)	
Compensated Absences Payable	(120,143)	
		(1,180,630)

An internal service fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. 61,530

Net Assets of Governmental Activities \$7,919,682

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended December 31, 2004

	General	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$526,742	\$0	\$0	\$526,742
Municipal Income Taxes	2,101,327	0	0	2,101,327
Other Local Taxes	143,320	0	18,751	162,071
Special Assessments	0	0	46,821	46,821
Charges for Services	313,097	0	570	313,667
Fees, Licenses, and Permits	37,583	0	0	37,583
Fines and Forfeitures	8,769	0	2,649	11,418
Intergovernmental	902,456	316,731	389,391	1,608,578
Interest	20,259	1,668	11,317	33,244
Other	72,606	689	13,478	86,773
Total Revenues	4,126,159	319,088	482,977	4,928,224
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,562,639	0	69,237	1,631,876
Fire	154,167	0	0	154,167
Ambulance	36,290	0	0	36,290
Public Health	222,157	0	0	222,157
Leisure Time Activities	185,604	0	0	185,604
Community Environment	5,704	0	257,001	262,705
Transportation	0	558,654	23,136	581,790
General Government	1,390,500	0	0	1,390,500
Capital Outlay	0	0	464,634	464,634
Debt Service:				
Principal Retirement	52,355	5,000	213,745	271,100
Interest and Fiscal Charges	2,902	0	41,960	44,862
Total Expenditures	3,612,318	563,654	1,069,713	5,245,685
Excess of Revenues Over (Under) Expenditures	513,841	(244,566)	(586,736)	(317,461)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	40,603	0	0	40,603
Inception of Capital Lease	116,156	0	0	116,156
Transfers In	7,854	290,000	607,348	905,202
Transfers Out	(734,564)	0	(163,638)	(898,202)
Total Other Financing Sources (Uses)	(569,951)	290,000	443,710	163,759
Change in Fund Balance	(56,110)	45,434	(143,026)	(153,702)
Fund Balance Beginning of Year	870,427	28,976	1,445,645	2,345,048
Fund Balance End of Year	<u>\$814,317</u>	<u>\$74,410</u>	<u>\$1,302,619</u>	<u>\$2,191,346</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2004

Change in Fund Balance - Total Governmental Funds (\$153,702)

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

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

Capital Outlay	\$591,479	
Capital Contributions	19,239	
Depreciation	<u>(488,580)</u>	122,138

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the cost of the capital assets is removed from the capital asset account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a gain on disposal of capital assets on the statement of activities.

Sale of Capital Assets	(40,603)	
Gain on Disposal of Capital Assets	<u>23,006</u>	(17,597)

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

Property Taxes	(2,006)	
Municipal Income Taxes	(50,071)	
Other Local Taxes	(65,956)	
Special Assessments	(26,570)	
Charges for Services	(28,736)	
Fees, Licenses, and Permits	3,698	
Intergovernmental	78,268	
Interest	<u>504</u>	(90,869)

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

General Obligation Bonds Payable	171,917	
Special Assessment Bonds Payable	18,808	
Capital Leases Payable	<u>80,375</u>	271,100

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 524

The inception of a capital lease is reported as an other financing source in governmental funds, but increases long-term liabilities on the statement of net assets. (116,156)

Some expenses reported on the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Due to Other Governments	49,808	
Compensated Absences Payable	<u>(9,676)</u>	40,132

The internal service fund used by management to charge the cost of health insurance services to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. 161,715

Change in Net Assets of Governmental Activities \$217,285

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Over (Under)
<u>Revenues</u>				
Property Taxes	\$437,500	\$426,300	\$526,742	\$100,442
Municipal Income Taxes	2,124,500	2,499,412	2,031,204	(468,208)
Other Local Taxes	138,768	161,369	143,301	(18,068)
Charges for Services	205,263	350,493	325,313	(25,180)
Fees, Licenses, and Permits	9,298	42,913	37,583	(5,330)
Fines and Forfeitures	4,108	16,777	9,061	(7,716)
Intergovernmental	525,219	621,960	863,798	241,838
Interest	15,246	17,729	18,914	1,185
Other	123,217	148,662	72,606	(76,056)
Total Revenues	3,583,119	4,285,615	4,028,522	(257,093)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,486,448	1,486,448	1,499,359	(12,911)
Fire	154,467	154,467	167,479	(13,012)
Ambulance	46,932	46,932	44,003	2,929
Public Health	227,936	227,936	225,716	2,220
Leisure Time Activities	254,214	254,214	211,560	42,654
Community Environment	7,458	7,458	6,102	1,356
General Government	1,489,019	1,981,519	1,450,695	530,824
Debt Service:				
Principal Retirement	0	4,055	4,055	0
Interest and Fiscal Charges	0	3,445	2,902	543
Total Expenditures	3,666,474	4,166,474	3,611,871	554,603
Excess of Revenues Over (Under) Expenditures	(83,355)	119,141	416,651	297,510
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	0	40,603	40,603
Proceeds of Notes	500,000	500,000	0	(500,000)
Advances Out	(6,000)	(6,000)	0	6,000
Transfers In	14,881	186,165	854	(185,311)
Transfers Out	(857,000)	(857,000)	(729,564)	127,436
Total Other Financing Sources (Uses)	(348,119)	(176,835)	(688,107)	(511,272)
Change in Fund Balance	(431,474)	(57,694)	(271,456)	(213,762)
Fund Balance Beginning of Year	598,861	598,861	598,861	0
Prior Year Encumbrances Appropriated	30,941	30,941	30,941	0
Fund Balance End of Year	\$198,328	\$572,108	\$358,346	(\$213,762)

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Revenues, Expenditures, and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2004

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Intergovernmental	\$317,101	\$317,101	\$317,596	\$495
Interest	1,960	1,960	1,387	(573)
Other	13,837	13,838	689	(13,149)
Total Revenues	332,898	332,899	319,672	(13,227)
<u>Expenditures</u>				
Current:				
Transportation	677,106	677,106	580,986	96,120
Excess of Revenues Under Expenditures	(344,208)	(344,207)	(261,314)	82,893
<u>Other Financing Sources</u>				
Transfers In	317,101	317,101	290,000	(27,101)
Change in Fund Balance	(27,107)	(27,106)	28,686	55,792
Fund Balance Beginning of Year	28,209	28,209	28,209	0
Prior Year Encumbrances Appropriated	3,606	3,606	3,606	0
Fund Balance End of Year	<u>\$4,708</u>	<u>\$4,709</u>	<u>\$60,501</u>	<u>\$55,792</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
Assets				
Current Assets				
Equity in Pooled Cash and Cash Equivalents	\$368,882	\$477,437	\$846,319	\$0
Cash and Cash Equivalents with Fiscal Agents	0	0	0	108,963
Accounts Receivable	172,962	279,090	452,052	0
Prepaid Items	6,903	2,092	8,995	0
Materials and Supplies Inventory	19,914	5,807	25,721	0
Total Current Assets	568,661	764,426	1,333,087	108,963
Non-Current Assets				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	36,534	0	36,534	0
Nondepreciable Capital Assets	62,827	8,269,462	8,332,289	0
Depreciable Capital Assets, Net	1,796,467	1,490,745	3,287,212	0
Total Non-Current Assets	1,895,828	9,760,207	11,656,035	0
Total Assets	2,464,489	10,524,633	12,989,122	108,963
Liabilities				
Current Liabilities				
Accrued Wages Payable	4,842	7,902	12,744	0
Accounts Payable	7,893	29,789	37,682	0
Contracts Payable	327	83,467	83,794	0
Retainage Payable	0	82,307	82,307	0
Due to Other Governments	7,146	13,827	20,973	0
Accrued Interest Payable	24	334	358	0
Claims Payable	0	0	0	47,433
General Obligation Bonds Payable	2,455	33,548	36,003	0
OWDA Loans Payable	40,787	175,378	216,165	0
OPWC Loans Payable	0	11,818	11,818	0
Compensated Absences Payable	14,149	15,960	30,109	0
Total Current Liabilities	77,623	454,330	531,953	47,433
Non-Current Liabilities				
Liabilities Payable from Restricted Assets				
Deposits Held and Due to Others	36,534	0	36,534	0
General Obligation Bonds Payable	7,824	106,936	114,760	0
OWDA Loans Payable	831,424	4,803,193	5,634,617	0
OPWC Loans Payable	18,011	238,746	256,757	0
Compensated Absences Payable	14,961	39,252	54,213	0
Total Non-Current Liabilities	908,754	5,188,127	6,096,881	0
Total Liabilities	986,377	5,642,457	6,628,834	47,433
Net Assets				
Invested in Capital Assets, Net of Related Debt	958,793	4,390,588	5,349,381	0
Unrestricted	519,319	491,588	1,010,907	61,530
Total Net Assets	\$1,478,112	\$4,882,176	6,360,288	\$61,530
Net assets reported for business-type activities on the statement of net assets are different because they include a proportionate share of the net assets of the internal service fund			15,920	
Net assets of business-type activities			\$6,376,208	

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$1,198,184	\$1,517,020	\$2,715,204	\$582,085
Other	2,880	938	3,818	2,809
Total Operating Revenues	<u>1,201,064</u>	<u>1,517,958</u>	<u>2,719,022</u>	<u>584,894</u>
<u>Operating Expenses</u>				
Personal Services	334,707	609,891	944,598	0
Contractual Services	32,351	24,351	56,702	93,785
Materials and Supplies	745,541	296,924	1,042,465	0
Bad Debt	782	1,264	2,046	0
Claims	0	0	0	272,653
Other	40,121	40,000	80,121	219
Depreciation	47,118	57,396	104,514	0
Total Operating Expenses	<u>1,200,620</u>	<u>1,029,826</u>	<u>2,230,446</u>	<u>366,657</u>
Operating Income	<u>444</u>	<u>488,132</u>	<u>488,576</u>	<u>218,237</u>
<u>Non-Operating Revenues (Expenses)</u>				
Grants	0	625,945	625,945	0
Interest Revenue	29,106	2,309	31,415	220
Interest Expense	(50,818)	(197,724)	(248,542)	0
Total Non-Operating Revenues (Expenses)	<u>(21,712)</u>	<u>430,530</u>	<u>408,818</u>	<u>220</u>
Income (Loss) before Transfers	<u>(21,268)</u>	<u>918,662</u>	<u>897,394</u>	<u>218,457</u>
Transfers In	0	13,638	13,638	0
Transfers Out	<u>(32,877)</u>	<u>(7,000)</u>	<u>(39,877)</u>	<u>0</u>
Change in Net Assets	<u>(54,145)</u>	<u>925,300</u>	<u>871,155</u>	<u>218,457</u>
Net Assets (Deficit) Beginning of Year	<u>1,532,257</u>	<u>3,956,876</u>		<u>(156,927)</u>
Net Assets End of Year	<u><u>\$1,478,112</u></u>	<u><u>\$4,882,176</u></u>		<u><u>\$61,530</u></u>

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

56,742

Change in net assets of business-type activities

\$927,897

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities			Governmental
				Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,206,117	\$1,463,970	\$2,670,087	\$0
Cash Received from Transactions with Other Funds	0	0	0	582,085
Cash Received from Other Revenues	2,880	938	3,818	2,809
Cash Payments for Personal Services	(340,278)	(636,509)	(976,787)	0
Cash Payments for Contractual Services	(41,546)	(265,247)	(306,793)	(93,785)
Cash Payments to Vendors	(734,512)	(722,800)	(1,457,312)	0
Cash Payments for Claims	0	0	0	(343,093)
Cash Payments for Other Expenses	(40,121)	(40,000)	(80,121)	(219)
Net Cash Provided by (Used for) Operating Activities	<u>52,540</u>	<u>(199,648)</u>	<u>(147,108)</u>	<u>147,797</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Grants	0	625,945	625,945	0
Cash Received from Other Funds	0	0	0	(39,054)
Transfers In	0	13,638	13,638	0
Transfers Out	(32,877)	(7,000)	(39,877)	0
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(32,877)</u>	<u>632,583</u>	<u>599,706</u>	<u>(39,054)</u>
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on General Obligation Bonds	(2,396)	(32,742)	(35,138)	0
Principal Paid on OWDA Loans	(38,646)	(238,401)	(277,047)	0
Principal Paid on OPWC Loans	0	(6,609)	(6,609)	0
Interest Paid on General Obligation Bonds	(362)	(4,946)	(5,308)	0
Interest Paid on OWDA Loans	(50,462)	(192,856)	(243,318)	0
Proceeds of OWDA Loans	0	1,038,259	1,038,259	0
Proceeds of OPWC Loans	18,011	231,273	249,284	0
Acquisition of Capital Assets	(69,829)	(1,124,686)	(1,194,515)	0
Net Cash Used for Capital and Related Financing Activities	<u>(143,684)</u>	<u>(330,708)</u>	<u>(474,392)</u>	<u>0</u>
<u>Cash Flows from Investing Activities</u>				
Interest	<u>29,106</u>	<u>2,309</u>	<u>31,415</u>	<u>220</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(94,915)	104,536	9,621	108,963
Cash and Cash Equivalents Beginning of Year	<u>500,331</u>	<u>372,901</u>	<u>873,232</u>	<u>0</u>
Cash and Cash Equivalents End of Year	<u>\$405,416</u>	<u>\$477,437</u>	<u>\$882,853</u>	<u>\$108,963</u>

CITY OF PORT CLINTON
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004
(continued)

	Business-Type Activities			Governmental
				Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
<u>Reconciliation of Operating Income to Net</u>				
<u>Cash Provided by (Used for) Operating Activities</u>				
Operating Income	\$444	\$488,132	\$488,576	\$218,237
<u>Adjustments to Reconcile Operating Income to Net</u>				
<u>Cash Provided by (Used for) Operating Activities</u>				
Depreciation	47,118	57,396	104,514	0
Provision for Uncollectible Accounts	782	1,264	2,046	0
Changes in Assets and Liabilities:				
(Increase) Decrease in Accounts Receivable	7,933	(53,050)	(45,117)	0
Increase in Prepaid Items	(165)	(234)	(399)	0
Increase (Decrease) in Materials and Supplies Inventory	754	(541)	213	0
Decrease in Accrued Wages Payable	(6,525)	(14,803)	(21,328)	0
Increase (Decrease) in Accounts Payable	(73)	8,901	8,828	0
Increase (Decrease) in Contracts Payable	327	(404,425)	(404,098)	0
Decrease in Retainage Payable	0	(270,437)	(270,437)	0
Decrease in Due to Other Governments	(8,545)	(17,502)	(26,047)	0
Decrease in Claims Payable	0	0	0	(70,440)
Increase in Compensated Absences Payable	9,518	5,651	15,169	0
Increase in Deposits Held and Due to Others	972	0	972	0
Net Cash Provided by (Used for) Operating Activities	<u>\$52,540</u>	<u>(\$199,648)</u>	<u>(\$147,108)</u>	<u>\$147,797</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2004

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u>\$19,984</u>
 <u>Liabilities</u>	
Undistributed Assets	<u>\$19,984</u>

See Accompanying Notes to the Basic Financial Statements

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 2004.

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 19 to the basic financial statements.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The funds of the City are reported in three categories: governmental, proprietary, and fiduciary.

Governmental Funds

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

General Fund - The General Fund accounts for all financial resources, except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

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

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

Proprietary Funds

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

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

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

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2004. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

Like the government-wide financial statements, the proprietary funds are accounted for using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of fund net assets. The statement of revenues, expenses, and change in fund net assets presents increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statement of cash flows reflects how the City finances and meets the cash flow needs of its proprietary activities. Agency funds do not report a measurement focus as they do not report results of operations.

D. Basis of Accounting

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2004, but were levied to finance 2005 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During 2004, the City's investments included nonnegotiable certificates of deposit, repurchase agreements, bonds of the City, and STAR Ohio. Nonnegotiable certificates of deposit and repurchase agreements are reported at cost. Investments are reported at fair value, which 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, 2004.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2004 was \$20,259, which includes \$14,422 assigned from other City funds.

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

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

J. Capital Assets

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

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

All capital assets are depreciated, except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. The City's infrastructure consists of streets, water lines, sewer lines, and storm sewer lines.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

K. Interfund Assets/Liabilities

Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The only interfund balances reflected on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances".

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes include activities for construction, repair, and maintenance of streets and highways, the community development block grant program, revolving loan program, and various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2004, net assets restricted by enabling legislation was \$154,544 for governmental activities.

O. Fund Balance Reserves

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

P. Operating Revenues and Expenses

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

Q. Capital Contributions

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

R. Interfund Transactions

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

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

During 2004, the Water enterprise fund donated a capital asset for governmental operations, in the amount of \$19,239. Therefore, transfers in and out do not equal within the fund financial statements.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Extraordinary and Special Items

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

T. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 2004, the City has implemented GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers", GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", and GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation".

GASB Technical Bulletin 2004-2 establishes new guidance addressing the amount that should be recognized as expenditures/expenses and as liabilities each period by employers participating in cost-sharing multiple-employer pension and other postemployment benefit plans. The implementation of this bulletin did not result in any change to the City's financial statements.

GASB Statement No. 39 establishes additional guidance on the application of existing standards for determining whether certain organizations should be reported as component units based on the nature and significance of their relationship to the primary government. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 46 defines enabling legislation and specifies how net assets should be reported in the financial statements when there are changes in such legislation. The Statement also requires governments to disclose in the notes to the financial statements the amount of net assets restricted by enabling legislation.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - COMPLIANCE

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2004.

<u>Fund/Program/Department</u>	<u>Appropriations</u>	<u>Expenditures Plus Encumbrances</u>	<u>Excess</u>
General Fund			
General Government			
Council	\$45,699	\$47,037	\$1,338
Mayor	26,699	28,674	1,975
Treasurer	14,200	16,922	2,722
Safety-Service	147,154	155,053	7,899
Security of Persons and Property - Police	1,486,448	1,499,359	12,911
Security of Person and Property - Fire	154,467	167,479	13,012

In the future, the City Auditor will monitor budgetary transactions to ensure appropriations are accurate and recorded appropriately.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

	Change in Fund Balance	
	General	Street Maintenance
GAAP Basis	(\$56,110)	\$45,434
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2003, Received in Cash 2004	372,762	20,196
Accrued 2004, Not Yet Received in Cash	(469,054)	(19,331)
Expenditure Accruals:		
Accrued 2003, Paid in Cash 2004	(192,433)	(41,776)
Accrued 2004, Not Yet Paid in Cash	172,046	27,840
Cash Adjustments:		
Unrecorded Activity 2003	(185)	107
Unrecorded Activity 2004	(2,687)	(388)
Prepaid Items	(2,479)	(544)
Materials and Supplies Inventory	284	4,707
Lease Principal Retirement	7,000	0
Transfer In	(2,000)	0
Encumbrances Outstanding at Year End (Budget Basis)	(98,600)	(7,559)
Budget Basis	(\$271,456)	\$28,686

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (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 City 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 \$3,520 in undeposited cash on hand which is included as part of "Equity in Pooled Cash and Cash Equivalents".

At year end, the City's internal service fund had a balance of \$108,963 with Ohio Mid Eastern Regional Education Service Agency, the City's insurance administrator. This money is held by the claims servicer in a pooled account with that of other entities and, therefore, cannot be classified by risk under GASB Statement No. 3.

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 \$301,712 and the bank balance was \$391,870. Of the bank balance, \$301,357 was covered by the federal depository insurance and \$90,513 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.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

	Category 1	Category 3	Carrying Value	Fair Value
Repurchase Agreements	\$0	\$577,365	\$577,365	\$577,396
City of Port Clinton Bonds	44,744	0	44,744	44,744
	<u>\$44,744</u>	<u>\$577,365</u>		
STAR Ohio			1,462,542	1,462,542
			<u>\$2,084,651</u>	<u>\$2,084,682</u>

The classification of cash and cash equivalents and investments on the financial statements is based on the 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 financial statements 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	\$2,498,846	\$0
Cash on Hand	(3,520)	0
Cash Held by Third Party Administrator	(108,963)	0
Investments:		
Repurchase Agreements	(577,365)	577,365
City of Port Clinton Bonds	(44,744)	44,744
STAR Ohio	(1,462,542)	1,462,542
GASB Statement No. 3	<u>\$301,712</u>	<u>\$2,084,651</u>

NOTE 7 - RECEIVABLES

Receivables at December 31, 2004, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; and special assessments. Notes receivable, in the amount of \$335,337, will not be received within one year. Special assessments receivable, in the amount of \$266,114, will not be received within one year. At December 31, 2004, the amount of delinquent special assessments was \$59,943.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 7 - RECEIVABLES (continued)

A summary of the changes in notes receivable during 2004 follows:

	Balance January 1, 2004	New Loans	Repayments	Balance December 31, 2004
Special Revenue Fund				
CDBG	\$155,978	\$0	\$0	\$155,978
HPG	142,808	0	5,948	136,860
HOME	32,284	79,835	49,620	62,499
	<u>\$331,070</u>	<u>\$79,835</u>	<u>\$55,568</u>	<u>\$355,337</u>

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$186,243	\$295,992	\$482,235
Less Allowance for Uncollectibles	13,281	16,902	30,183
Net Accounts Receivable	<u>\$172,962</u>	<u>\$279,090</u>	<u>\$452,052</u>

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$31,397
Personal Property Exemption	3,682
Local Government	208,558
Beer and Liquor Permits	11,898
Estate Tax	91,080
Municipal Court Fines	142
Total General Fund	<u>346,757</u>
Street Maintenance	
Gasoline Tax	93,409
Motor Vehicle License Tax	35,170
Total Street Maintenance	<u>128,579</u>
Total Major Funds	<u>475,336</u>

(continued)

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds	
State Highway	
Gasoline Tax	\$8,750
Motor Vehicle License Tax	2,852
Total State Highway	11,602
COPS in Schools	
COPS Grant	3,472
CDBG	
CDBG Grant	17,400
Municipal Purposes	
Transcient Dock Grant	100,000
Total Nonmajor Funds	132,474
Total Governmental Activities	\$607,810

NOTE 8 - MUNICIPAL INCOME TAXES

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2004 represent the collection of 2003 taxes. Real property taxes received in 2004 were levied after October 1, 2003, on the assessed values as of January 1, 2003, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2004 represent the collection of 2003 taxes. Public utility real and tangible personal property taxes received in 2004 became a lien on December 31, 2002, were levied after October 1, 2003, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 9 - PROPERTY TAXES (continued)

Tangible personal property tax revenues received in 2004 (other than public utility property) represent the collection of 2004 taxes. Tangible personal property taxes received in 2004 were levied after October 1, 2003, on the true value as of December 31, 2003. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2004, 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 2004 operations.

Collectible delinquent real property taxes have been recorded as a receivable and revenue on the full accrual basis. On the modified accrual basis, the revenue is deferred.

The full tax rate for all City operations for the year ended December 31, 2004, was \$4.20 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2003 property tax receipts were based are as follows:

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004, was as follows:

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$516,482	\$0	\$0	\$516,482
Construction in Progress	0	130,075	0	130,075
Total Nondepreciable Capital Assets	516,482	130,075	0	646,557
Depreciable Capital Assets				
Land Improvements	20,787	0	0	20,787
Buildings and Improvements	1,519,031	13,780	0	1,532,811
Furniture, Fixtures, and Equipment	907,413	293,346	0	1,200,759
Vehicles	1,395,056	136,380	(70,388)	1,461,048
Streets	7,759,283	37,137	0	7,796,420
Total Depreciable Capital Assets	11,601,570	480,643	(70,388)	12,011,825
Less Accumulated Depreciation for				
Land Improvements	(1,559)	(1,039)	0	(2,598)
Buildings and Improvements	(460,501)	(32,403)	0	(492,904)
Furniture, Fixtures, and Equipment	(514,574)	(80,177)	0	(594,751)
Vehicles	(1,114,724)	(180,979)	52,791	(1,242,912)
Streets	(4,394,441)	(193,982)	0	(4,588,423)
Total Accumulated Depreciation	(6,485,799)	(488,580)	52,791	(6,921,588)
Total Depreciable Capital Assets, Net	5,115,771	(7,937)	(17,597)	5,090,237
Governmental Activities Capital Assets, Net	\$5,632,253	\$122,138	(\$17,597)	\$5,736,794

The City accepted contributions of depreciable capital assets for governmental activities with a fair value of \$19,239 during 2004.

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552	\$0	\$0	\$12,552
Construction in Progress	7,402,047	917,690	0	8,319,737
Total Nondepreciable Capital Assets	7,414,599	917,690	0	8,332,289

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004
Business-Type Activities (continued)				
Depreciable Capital Assets				
Land Improvements	\$3,965	\$0	\$0	\$13,965
Buildings and Improvements	2,959,017	0	0	2,959,017
Furniture, Fixtures, and Equipment	244,800	230,052	0	474,852
Vehicles	77,026	19,554	0	96,580
Water, Sewer, and Storm Sewer Lines	2,392,891	27,219	0	2,420,110
Total Depreciable Capital Assets	5,687,699	276,825	0	5,964,524
Less Accumulated Depreciation for				
Land Improvements	(2,444)	(698)	0	(3,142)
Buildings and Improvements	(1,937,210)	(27,870)	0	(1,965,080)
Furniture, Fixtures, and Equipment	(196,160)	(23,764)	0	(219,924)
Vehicles	(75,963)	(4,322)	0	(80,285)
Water, Sewer, and Storm Sewer Lines	(361,021)	(47,860)	0	(408,881)
Total Accumulated Depreciation	(2,572,798)	(104,514)	0	(2,677,312)
Total Depreciable Capital Assets, Net	3,114,901	172,311	0	3,287,212
Business-Type Activities Capital Assets, Net	\$10,529,500	\$1,090,001	\$0	\$11,619,501

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$72,681
Security of Persons and Property - Fire	122,487
Public Health	20,862
Leisure Time Activities	10,423
Transportation	243,398
General Government	18,729
Total Depreciation Expense - Governmental Activities	\$488,580

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 - 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 2004, the City contracted with the Ohio Government Risk Management Plan, an insurance pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$11,454,974	\$1,000
Special Property	1,171,052	1,000
General Liability		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Medical Expense		
Per Person	10,000	0
Aggregate	50,000	0
Employer's Liability		
Occurrence	2,000,000	0
Aggregate	2,000,000	0
Employee Benefits		
Occurrence	1,000,000	0
Aggregate	3,000,000	0
Public Officials Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Law Enforcement Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Auto Liability	2,000,000	250/500

There has been no significant reduction in insurance coverage from 2003, 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 2004, 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, 2004, the City had \$108,963 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 in excess of \$35,000 up to \$75,000 are paid out of a pool maintained by OME-RESA. Claims in excess of \$75,000 are covered by stop-loss insurance. Settled claims have not exceeded the stop-loss coverage for the last three years.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 11 - RISK MANAGEMENT (continued)

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2004, is estimated by the third party administrator at \$47,433.

The changes in the claims liability for 2004 and 2003 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2004	\$117,873	\$272,653	\$343,093	\$47,433
2003	92,533	437,797	412,457	117,873

For 2004, 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.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 12 - CONTRACTUAL COMMITMENTS

At December 31, 2004, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Anderzack-Pitzen Construction	Jackson St Waterline& Sewer Relining	\$27,510
Brunkhurst Engineering	Survey:Perry St/Maple-Jefferson	13,900
Floyd Browne	Operating Asst WWTP I	3,242
Floyd Browne	Operating Asst WWTP I	20,000
G.G.J. Engineer	WWTP-As Built Drawings	5,686
G.G.J. Engineer	WWTP-O&M Manual	2,000
Ken Gill Construction	Install Waterline:Perry St/Oak	8,000
McCullough Construction	Transient Docks	23,405
Mosser Construction	WWTP-Change Orders	125,763
Poggemeyer Design	Marina Feasibility Study	1,480
Squire, Sanders & Dempsey	Legal Fees against GGJ Engineers	22,305

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 13 - DEFINED BENEFIT PENSION PLANS (continued)

For the year ended December 31, 2004, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2004 was 9.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 was \$196,032, \$154,011, and \$149,949, respectively; 91 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$16,738, is recorded as a liability. Contributions to the member-directed plan for 2004 were \$5,665 made by the City and \$3,554 made by plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the OPF for the years ended December 31, 2004, 2003, and 2002 were \$80,210, \$79,707, and \$75,615, respectively; 70 percent has been contributed for 2004 and 100 percent has been contributed for 2003 and 2002. The unpaid contribution for 2004, in the amount of \$23,924, is recorded as a liability.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2004 employer contribution rate was 13.55 percent of covered payroll; 4.00 percent was the portion used to fund health care.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 14 - POSTEMPLOYMENT BENEFITS (continued)

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2003, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 1 to 6 percent annually for the next eight years and 4 percent annually after eight years.

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

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits was \$84,480. The actual contribution and the actuarial required contribution amounts are the same. OPERS's net assets available for the payment of benefits at December 31, 2003 (the latest information available), was \$10.5 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

In September 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2004. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$52,905 for police. The OPF's total health care expense for the year ended December 31, 2003 (the latest information available), was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OPF participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 15 - COMPENSATED ABSENCES

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

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

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

NOTE 16 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2004, was as follows:

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$84,260)	6.22%	\$46,813	\$0	\$4,055	\$42,758	\$4,055
2002 Various Purpose (Original Amount \$1,271,000)	2.855	888,099	0	167,862	720,237	171,997
Total General Obligation Bonds		934,912	0	171,917	762,995	176,052
<u>Special Assessment Bonds</u>						
1990 South Madison Street (Original Amount \$132,500)	7.4	49,000	0	7,000	42,000	7,000
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	80,187	0	6,945	73,242	6,945
1995 Fulton Street (Original Amount \$48,530)	6.5	32,000	0	2,000	30,000	2,000
2000 Downtown Improvement (Original Amount \$54,638)	5.75	47,608	0	2,863	44,745	3,028
Total Special Assessment Bonds		208,795	0	18,808	189,987	18,973
<u>Other Long-Term Obligations</u>						
Capital Leases Payable	3.95/5.73	68,773	116,156	80,375	104,554	65,855
Compensated Absences Payable		110,467	14,657	4,981	120,143	46,039
Total Governmental Activities		\$1,322,947	\$130,813	\$276,081	\$1,177,679	\$306,919

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2003	Additions	Reductions	Balance December 31, 2004	Due Within One Year
<u>Business-Type Activities</u>						
2002 General Obligation Bonds (Original Amount \$220,000)	2.855%	\$185,901		\$35,138	\$150,763	\$36,003
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54	910,857		38,646	872,211	40,787
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	4,659,168	\$557,804	238,401	4,978,571	175,378
2002 OPWC Loans Payable (Original Amount \$28,000)		25,900		1,400	24,500	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)			208,350	5,209	203,141	10,418
2004 OPWC Loans Payable (Original Amount \$40,934)			40,934		40,934	
Other Long-Term Obligations						
Compensated Absences Payable		69,153	15,169		84,322	30,109
Total Business-Type Activities		<u>\$5,850,979</u>	<u>\$822,257</u>	<u>\$318,794</u>	<u>\$6,354,442</u>	<u>\$294,095</u>

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton and are payable from unvoted property tax revenues to the extent that other resources are not available to meet annual principal and interest payments.

Special Assessment Bonds

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

Capital Leases Payable

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

Compensated Absences

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

OWDA Loans Payable

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

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 16 - LONG-TERM OBLIGATIONS (continued)

OPWC Loans Payable

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

The City's legal debt margin was \$13,587,280 at December 31, 2004.

The wastewater treatment plant expansion project funded by OWDA loans has not been completed. An amortization schedule for the repayment of the loans will not be available until the project is completed and, therefore, is not included below.

The Jackson Street water and sewer lines project funded by OPWC loans has not been completed. An amortization schedule for the repayment of the loans will not be available until the project is completed and, therefore, is not included below.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2004, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2005	\$176,052	\$23,215	\$18,973	\$12,171
2006	181,840	18,052	19,147	10,919
2007	186,802	12,724	19,331	9,657
2008	191,763	7,257	20,526	8,383
2009	4,423	1,646	21,364	7,033
2010 to 2014	22,115	4,113	82,349	17,005
2015 to 2016	0	0	8,297	499
Total	\$762,995	\$67,007	\$189,987	\$65,667

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, from the business-type activities were as follows:

Year	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2005	\$36,003	\$4,304	\$40,787	\$48,321	\$11,818
2006	37,215	3,277	43,047	46,061	11,817
2007	38,253	2,213	45,432	43,676	11,818
2008	39,292	1,121	47,949	41,159	11,817
2009	0	0	50,605	38,503	11,818
2010 to 2014	0	0	298,317	147,223	59,087
2015 to 2019	0	0	346,074	54,912	59,087
2020 to 2024	0	0	0	0	50,379
Total	\$150,763	\$10,915	\$872,211	\$419,855	\$227,641

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 17 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment and vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Security of Persons and Property-Police" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds. Principal payments in 2004 were \$80,375.

	Governmental Activities
Property under Capital Lease	\$297,589
Less Accumulated Depreciation	(67,375)
Total	\$230,214

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, 2004.

	Governmental Activities	
Year	Principal	Interest
2005	\$65,855	\$4,639
2006	38,699	1,529
Total	\$104,554	\$6,168

NOTE 18 - INTERFUND TRANSFERS

During 2004, the General Fund made transfers to the Street Maintenance fund, in the amount of \$290,000, to subsidize activities of the fund. The General Fund also made transfers to other governmental funds, in the amount of \$444,564; \$36,033 as debt payments came due and \$408,531 to subsidize activities of the various funds.

Other governmental funds made transfers to the General Fund, in the amount of \$854, to close out a fund. Other governmental funds also made transfers to other governmental funds, in the amount of \$162,784, as debt payments came due.

The Water enterprise fund transferred capital assets for general government operations and for the Sewer enterprise fund, in the amount of \$19,239 and \$13,638, respectively.

The Sewer enterprise fund made a transfer to the General Fund, in the amount of \$7,000, for a lease payment on a mower.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 19 - INSURANCE POOLS

A. Ohio Government Risk Management Plan

The City belongs to the Ohio Government Risk Management Plan (the "Plan"), an unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to approximately 500 Ohio governments ("Members").

Pursuant to Section 2744.081 of the Ohio Revised Code, the Plan is a separate legal entity. The Plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages, modified for each Member's needs. The Plan pays judgments, settlements and other expenses resulting from covered claims that exceed the Member's deductible.

The Plan issues its own policies and reinsures the Plan with A- VII or better rated carriers, except for the 5% portion retained by the Plan. After September 1, 2003, the Plan pays the lesser of 5% or \$25,000 of casualty losses and the lesser of 5% or \$50,000 of property losses. The individual members are only responsible for their self-retention (deductible) amounts, which vary from member to member.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and retained earnings at December 31: 2004 and 2003 (the latest information available):

	<u>2004</u>	<u>2003</u>
Assets	\$6,685,522	\$5,402,167
Liabilities	<u>\$2,227,808</u>	<u>\$1,871,123</u>
Members' Equity	<u>\$4,457,714</u>	<u>\$3,531,044</u>

You can read the complete audited financial statements for The Ohio Government Risk Management Plan at the Plan's website, www.ohioplan.org.

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

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

NOTE 20 - CONTINGENT LIABILITIES

The City 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.

NOTE 21 - SUBSEQUENT EVENTS

On March 10, 2005, the City issued \$500,000 in bond anticipation notes to pay the costs of acquiring, remodeling, equipping and otherwise improving a building to house the operations of the City's volunteer fire department. The notes have an interest rate of 3.64 percent and mature on March 9, 2007.

CITY OF PORT CLINTON
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 21 - SUBSEQUENT EVENTS (continued)

On October 11, 2005, the City approved Ordinance 31-05 amending the City's income tax code. The City will allow a credit of 50 percent of the tax paid to another municipality, not to exceed the amount owed. Previously, the City has allowed a credit of 100 percent.

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CITY OF PORT CLINTON
OTTAWA COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>Passed Through Ohio Department of Development</i>				
Community Development Block Grant - States Program	AC-02 166-1	14.228	68,603	\$ 90,387
Home Investment Partnerships Program	AC-02 166-2	14.239	<u>136,373</u>	<u>153,107</u>
Total passed through Ohio Department of Development			<u>204,976</u>	<u>\$ 243,494</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>				
Surveys, Studies, Investigations and Special Purpose Grants	n/a	66.606	178,311	<u>441,457</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Cops in School Grant	n/a	16.710	41,667	<u>40,896</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>				
Transportation Security Administration Grant - Port Security	n/a	20.420	155,000	<u>155,000</u>
Total Federal Financial Assistance				<u><u>\$ 880,847</u></u>

The accompanying notes to this schedule are an integral part of this schedule.

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FISCAL YEAR ENDED DECEMBER 31, 2004**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditures Schedule (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 PROGRAMS

The City has established a revolving loan program to eligible persons to rehabilitate homes. 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, 2004, the gross amount of loans outstanding under this program was \$355,337.

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.

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**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 6, 2005. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinions on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated December 6, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of

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www.auditor.state.oh.us

noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated December 6, 2005, we reported other matters related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for 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

December 6, 2005



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 East 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 apply to its major federal program for the year ended December 31, 2004. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal program. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. 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 reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe 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 of Port Clinton complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended December 31, 2004. In a separate letter to the City's management dated December 6, 2005, we reported a matter related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The City's management 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

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requirements that could directly and materially affect a major federal program 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, City Council, federal awarding agencies, and pass-through entities. It is not intended for 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

December 6, 2005

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2004**

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)?	No
<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 Programs (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?	Yes

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2004**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2003-001	Finding for Recovery for Monies collected not paid in	Yes	
2003-002	Finding for Recovery Overpayment of Severance Leave	Yes	
2003-003	Lack of controls over the park and recreation department	No	Partially corrected - will report a portion of the finding in the management letter for this report.



**Auditor of State
Betty Montgomery**

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**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
DECEMBER 30, 2005**