



CITY OF PORT CLINTON
Port Clinton, Ohio

FINANCIAL STATEMENTS
December 31, 2006



Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Clifton Gunderson LLP, for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

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Auditor of State

March 28, 2008

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City of Port Clinton
 External Financial Statements
 For the Year Ended December 31, 2006

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ohio, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

City of Port Clinton
Ottawa County

In accordance with *Government Auditing Standards*, we have also issued a report dated February 22, 2008 on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

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

Clifton Henderson LLP

Toledo, Ohio
February 22, 2008

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

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, 2006. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

In total, the City's net assets increased \$1,144,441, or almost 8 percent. Governmental activities had an increase in net assets of 9 percent, the result of an increase in revenues and expenses remaining the same as the prior year. Net assets for business-type activities increased 5 percent, not a significant increase.

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, General Bond Retirement, 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 2006. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

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, General Bond Retirement, 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 accounted for the City's self-insured program for employee health care benefits. The City discontinued the self-insured program in 2005 and once final settlement has been made with the third-party administrator, this fund will be closed in 2007.

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.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2006 and 2005.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Assets</u>						
Current and Other Assets	\$5,896,478	\$4,580,644	\$1,746,409	\$1,479,422	\$7,642,887	\$6,060,066
Capital Assets, Net	5,591,172	5,886,089	11,602,503	11,731,813	17,193,675	17,617,902
Total Assets	11,487,650	10,466,733	13,348,912	13,211,235	24,836,562	23,677,968
<u>Liabilities</u>						
Current and Other Liabilities	1,409,708	1,283,177	242,231	159,304	1,651,939	1,442,481
Long-Term Liabilities	993,773	871,363	5,907,602	6,225,317	6,901,375	7,096,680
Total Liabilities	2,403,481	2,154,540	6,149,833	6,384,621	8,553,314	8,539,161
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,943,001	4,791,826	5,773,847	5,590,400	10,716,848	10,382,226
Restricted	2,232,476	1,837,316	0	0	2,232,476	1,837,316
Unrestricted	1,908,692	1,683,051	1,425,232	1,236,214	3,333,924	2,919,265
Total Net Assets	\$9,084,169	\$8,312,193	\$7,199,079	\$6,826,614	\$16,283,248	\$15,138,807

For governmental activities, there was a 29 percent increase in current and other assets resulting from two primary sources. Cash and cash equivalents increased over \$540,000 due to a better return on investments, a larger distribution of inheritance taxes, and the proceeds from the sale of a building. This increase can also be seen in the increase in unrestricted net assets. There was an increase in the receivable for property taxes of over \$426,000, the result of the approval of a 1.9 mill levy for the fire department. This receivable is offset by an increase in deferred revenue and, therefore, had no effect on net assets. The increase in restricted net assets is due to resources held for the payment of bond principal and interest. These payments were not made until 2007 and are reflected as matured liabilities on the statement of net assets.

Business-type activities had a modest increase in net assets of 5 percent. While there were really no changes of significance, the increase in current and other assets was primarily the result of a \$255,000 increase in cash and cash equivalents. This can be attributed to rate increases which occurred in 2006. This increase is also demonstrated in the increase in unrestricted net assets.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Table 2 reflects the change in net assets for 2006 and 2005.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$246,281	\$355,944	\$3,555,929	\$3,008,456	\$3,802,210	\$3,364,400
Operating Grants, Contributions, and Interest	694,596	790,775	0	0	694,596	790,775
Capital Grants and Contributions	10,000	39,400	44,126	332,343	54,126	371,743
Total Program Revenues	<u>950,877</u>	<u>1,186,119</u>	<u>3,600,055</u>	<u>3,340,799</u>	<u>4,550,932</u>	<u>4,526,918</u>
General Revenues						
Property Taxes Levied for General Purposes	697,873	568,192	0	0	697,873	568,192
Municipal Income Taxes	2,200,760	2,206,503	0	0	2,200,760	2,206,503
Other Local Taxes	143,997	149,964	0	0	143,997	149,964
Grants and Entitlements not Restricted to Specific Programs	824,986	528,917	0	0	824,986	528,917
Franchise Fees	16,288	37,231	0	0	16,288	37,231
Interest	168,479	82,999	0	0	168,479	82,999
Other	318,363	24,957	38,378	30,083	356,741	55,040
Total General Revenues	<u>4,370,746</u>	<u>3,598,763</u>	<u>38,378</u>	<u>30,083</u>	<u>4,409,124</u>	<u>3,628,846</u>
Total Revenues	<u>5,321,623</u>	<u>4,784,882</u>	<u>3,638,433</u>	<u>3,370,882</u>	<u>8,960,056</u>	<u>8,155,764</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,638,105	1,580,154	0	0	1,638,105	1,580,154
Fire	192,169	186,005	0	0	192,169	186,005
Public Health	227,658	271,628	0	0	227,658	271,628
Leisure Time Activities	132,437	153,697	0	0	132,437	153,697
Community Environment	240,653	194,322	0	0	240,653	194,322
Transportation	740,407	879,684	0	0	740,407	879,684
General Government	1,320,740	1,235,845	0	0	1,320,740	1,235,845
Interest and Fiscal Charges	55,886	54,001	0	0	55,886	54,001
Water	0	0	1,316,360	1,295,300	1,316,360	1,295,300
Sewer	0	0	1,951,200	1,645,317	1,951,200	1,645,317
Total Expenses	<u>4,548,055</u>	<u>4,555,336</u>	<u>3,267,560</u>	<u>2,940,617</u>	<u>7,815,615</u>	<u>7,495,953</u>
Increase in Net Assets						
Before Transfers	773,568	229,546	370,873	430,265	1,144,441	659,811
Transfers	(1,592)	(20,141)	1,592	20,141	0	0
Increase in Net Assets	<u>771,976</u>	<u>209,405</u>	<u>372,465</u>	<u>450,406</u>	<u>1,144,441</u>	<u>659,811</u>
Net Assets Beginning of Year	8,312,193	8,102,788	6,826,614	6,376,208	15,138,807	14,478,996
Net Assets End of Year	<u>\$9,084,169</u>	<u>\$8,312,193</u>	<u>\$7,199,079</u>	<u>\$6,826,614</u>	<u>\$16,283,248</u>	<u>\$15,138,807</u>

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

Program revenues for governmental activities had an overall decrease of almost 20 percent; however, there were simply a lot of little decreases in various revenue sources with one exception. There was a one-time non-recurring charge for service in the prior year which contributed to the overall decrease in charges for services. The most significant increases in general revenues are reflected in property taxes (the new fire levy), unrestricted grants and entitlements (inheritance taxes), interest (better return on investments), and other revenue (gain on sale of a building). There was a 22 percent increase in general revenues overall.

The City's total expenses illustrate amounts quite comparable to 2005. Safety related activities (police and fire), as expected, continue to account for the greatest portion of the City's expenses (40 percent for 2006). The majority of these costs are police department related since the City has a volunteer fire department. The City's second largest expense (29 percent for 2006) is related to general government costs, those costs primarily associated with running the City (costs consist of the mayor's office, the City auditor and treasurer, the law director, safety service director, income tax department, building and grounds maintenance, insurance, etc).

For business-type activities, program revenues continue to make up 99 percent of total revenues. This is, of course, charges for services for water and sewer services. Charges for services revenues increased somewhat due to rate increases. While expenses increased, the increases were not that significant.

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	
	2006	2005	2006	2005
Security of Persons and Property				
Police	\$1,638,105	\$1,580,154	\$1,583,911	\$1,458,613
Fire	192,169	186,005	86,147	95,866
Public Health	227,658	271,628	173,858	111,941
Leisure Time Activities	132,437	153,697	91,514	74,535
Community Environment	240,653	194,322	22,130	(116,143)
Transportation	740,407	879,684	295,551	469,507
General Government	1,320,740	1,235,845	1,288,181	1,220,897
Interest and Fiscal Charges	55,886	54,001	55,886	54,001
Total Expenses	<u>\$4,548,055</u>	<u>\$4,555,336</u>	<u>\$3,597,178</u>	<u>\$3,369,217</u>

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

With general revenues providing for 96 percent of the City's programs, the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As noted above, the City's police and fire operations are substantially funded through general revenues. The same can be said for general government operations. Both the public health and leisure time activities programs benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of cemetery lot sales for public health and sports league fees, parking fees, and concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the General Bond Retirement Fund. The General Fund experienced a 48 percent increase in fund balance in 2006. The factors influencing this improvement consist of increases in revenues previously identified, inheritance taxes, interest, and the proceeds from the sale of a building. Expenditures decreased \$478,000 from the prior year, primarily related to the general government program.

The General Bond Retirement Fund had an increase in fund balance due to principal and interest payments that were due to be paid in 2006 but were paid in 2007 and the proceeds from the capital lease.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. Both funds had a modest increase in net assets. The Water Fund remained very comparable to 2005. The Sewer Fund had increases in both revenues and expenses, due to rate increases and increased operating costs.

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. For revenues, changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. The same can be said for expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2006, was \$4,943,001 and \$5,773,847, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted of an excavator, mower, and traffic lights, as well as street improvements. Disposals included two buildings, various vehicles, backhoes, and a grader. For business-type activities, primary increase was related to continued improvements at the wastewater treatment plant. 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, 2006

Debt - At December 31, 2006, the City had \$259,100 in outstanding bond anticipation notes as well as \$405,103 in general obligation bonds and \$113,352 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$77,545 in general obligation bonds, \$267,693 in OPWC loans, and \$5,409,304 in OWDA loans outstanding at year end.

In addition, the City's long-term obligations also include capital leases and compensated absences. For further information regarding the City's long-term obligations, refer to Notes 17, 18, and 19 to the basic financial statements.

CURRENT ISSUES

Current issues and events in the City include the following:

- In November 2006, the voters approved a 1.9 mill levy for the fire department. The levy is expected to generate approximately \$230,000 per year for the next five years.
- During 2006, the City entered into a capital lease, in the amount of \$375,000, for new fire truck. The lease is for a term of seven years and has an interest rate of 4.525 percent.
- A new waterline was installed along West Third Street which has greatly improved the water pressure for residents.
- The City has resurfaced Jefferson Street between Fourth and Fifth Streets and modified the traffic flow on Fifth Street to reduce congestion and improve safety.
- The City has made improvements to the Derby Pond and to Lakeview Park. Donations provided for the cost of these improvements.
- The City is attempting to change the zoning of approximately fourteen acres of land at the intersection of the Portage River and Lake Erie. "Waterworks Park" is currently zoned for government and open space use. The City passed an ordinance rezoning this property to Central Business District to allow for commercial improvements on the property. A referendum on the ordinance was placed on the November 6, 2007, ballot and voters will decide if the zoning change will occur. The City has completed a developer selection process and will continue to negotiate with the developer if the zoning change occurs. The developer would like to construct a hotel, convention center, indoor waterpark, and public marina.
- The City and the Trust for Public Land have received a \$850,000 grant to restore and preserve the wetlands north of Perry Street.
- The City is working to expand sewer service to surrounding townships. The City is upgrading the Brooklyn Street pump station and extending a force main line along Lakeshore Drive to the City's western limits. This will allow the City to service Camp Perry, the Redhorse Squadron, the Lake Erie Business Park, Fenner Dunlap, and a number of residential customers in Erie Township. The City has issued \$1,445,000 in bond anticipation notes to fund this project (\$750,000 in September 2007 and \$695,000 in October 2007).
- In September 2007, the City has borrowed \$175,000 to resurface West Second Street and Laurel Street. This will improve drainage and support commercial activity at Brand Marina.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2006

- Unfortunately, a number of retail establishments have closed, including The Pharm and The Gallery on the Lake.

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 Steve Benko, City Auditor, 1868 Perry Street, Port Clinton, Ohio 43452.

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City of Port Clinton
Statement of Net Assets
December 31, 2006

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,159,834	\$1,146,295	\$3,306,129
Cash and Cash Equivalents with Fiscal Agent	384,092	0	384,092
Accounts Receivable	31,220	529,620	560,840
Accrued Interest Receivable	28,020	0	28,020
Due from Other Governments	460,444	0	460,444
Municipal Income Taxes Receivable	729,496	0	729,496
Other Local Taxes Receivable	3,246	0	3,246
Internal Balances	1,070	(1,070)	0
Prepaid Items	50,917	9,301	60,218
Materials and Supplies Inventory	36,462	62,263	98,725
Property Taxes Receivable	1,212,409	0	1,212,409
Notes Receivable	489,018	0	489,018
Special Assessments Receivable	310,250	0	310,250
Nondepreciable Capital Assets	516,482	352,507	868,989
Depreciable Capital Assets, Net	5,074,690	11,249,996	16,324,686
Total Assets	11,487,650	13,348,912	24,836,562
<u>Liabilities</u>			
Accrued Wages Payable	40,548	12,911	53,459
Accounts Payable	47,372	44,706	92,078
Contracts Payable	1,350	66,044	67,394
Retainage Payable	0	3,920	3,920
Due to Other Governments	96,040	28,559	124,599
Matured Bonds Payable	177,785	37,215	215,000
Matured Interest Payable	7,826	1,638	9,464
Deferred Revenue	777,253	0	777,253
Accrued Interest Payable	2,434	182	2,616
Notes Payable	259,100	0	259,100
Deposits Held and Due to Others	0	47,056	47,056
Long-Term Liabilities			
Due Within One Year	309,411	350,974	660,385
Due in More Than One Year	684,362	5,556,628	6,240,990
Total Liabilities	2,403,481	6,149,833	8,553,314
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,943,001	5,773,847	10,716,848
Restricted for			
Debt Service	315,056	0	315,056
Capital Projects	410,939	0	410,939
Transportation	599,988	0	599,988
Community Environment	672,091	0	672,091
Other Purposes	234,402	0	234,402
Unrestricted	1,908,692	1,425,232	3,333,924
Total Net Assets	\$9,084,169	\$7,199,079	\$16,283,248

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

City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,638,105	\$22,257	\$31,937	\$0
Fire	192,169	93,600	12,422	0
Public Health	227,658	53,800	0	0
Leisure Time Activities	132,437	27,955	2,968	10,000
Community Environment	240,653	0	218,523	0
Transportation	740,407	16,110	428,746	0
General Government	1,320,740	32,559	0	0
Interest and Fiscal Charges	55,886	0	0	0
Total Governmental Activities	4,548,055	246,281	694,596	10,000
<u>Business-Type Activities</u>				
Water	1,316,360	1,402,686	0	8,450
Sewer	1,951,200	2,153,243	0	35,676
Total Business-Type Activities	3,267,560	3,555,929	0	44,126
Total	\$7,815,615	\$3,802,210	\$694,596	\$54,126

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

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

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

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,583,911)	\$0	(\$1,583,911)
(86,147)	0	(86,147)
(173,858)	0	(173,858)
(91,514)	0	(91,514)
(22,130)	0	(22,130)
(295,551)	0	(295,551)
(1,288,181)	0	(1,288,181)
(55,886)	0	(55,886)
<u>(3,597,178)</u>	<u>0</u>	<u>(3,597,178)</u>
0	94,776	94,776
<u>0</u>	<u>237,719</u>	<u>237,719</u>
0	332,495	332,495
<u>(3,597,178)</u>	<u>332,495</u>	<u>(3,264,683)</u>
697,873	0	697,873
2,200,760	0	2,200,760
143,997	0	143,997
824,986	0	824,986
16,288	0	16,288
168,479	0	168,479
318,363	38,378	356,741
4,370,746	38,378	4,409,124
<u>(1,592)</u>	<u>1,592</u>	<u>0</u>
<u>4,369,154</u>	<u>39,970</u>	<u>4,409,124</u>
771,976	372,465	1,144,441
<u>8,312,193</u>	<u>6,826,614</u>	<u>15,138,807</u>
<u>\$9,084,169</u>	<u>\$7,199,079</u>	<u>\$16,283,248</u>

See Independent Auditor's Report

City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2006

	General	General Bond Retirement	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$933,545	\$5,045	\$1,203,928	\$2,142,518
Cash and Cash Equivalents				
with Fiscal Agent	0	383,966	0	383,966
Accounts Receivable	31,220	0	0	31,220
Accrued Interest Receivable	28,020	0	0	28,020
Due from Other Governments	248,233	0	212,211	460,444
Municipal Income Taxes Receivable	729,496	0	0	729,496
Other Local Taxes Receivable	2,183	0	1,063	3,246
Interfund Receivable	38,515	0	0	38,515
Prepaid Items	46,290	0	4,627	50,917
Materials and Supplies Inventory	15,559	0	20,903	36,462
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	17,316	0	0	17,316
Property Taxes Receivable	962,909	0	249,500	1,212,409
Notes Receivable	0	0	489,018	489,018
Special Assessments Receivable	0	0	310,250	310,250
Total Assets	\$3,053,286	\$389,011	\$2,491,500	\$5,933,797
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$35,175	\$0	\$5,373	\$40,548
Accounts Payable	24,472	0	22,900	47,372
Contracts Payable	700	0	650	1,350
Due to Other Governments	74,032	0	22,008	96,040
Interfund Payable	0	0	38,515	38,515
Matured Bonds Payable	0	177,785	0	177,785
Matured Interest Payable	0	7,826	0	7,826
Deferred Revenue	1,551,132	0	743,784	2,294,916
Total Liabilities	1,685,511	185,611	833,230	2,704,352
<u>Fund Balance</u>				
Reserved for Interfund Receivable	35,129	0	0	35,129
Reserved for Unclaimed Monies	17,316	0	0	17,316
Reserved for Notes Receivable	0	0	471,268	471,268
Reserved for Encumbrances	145,876	0	54,357	200,233
Unreserved, Reported in				
General Fund	1,169,454	0	0	1,169,454
Special Revenue Funds	0	0	811,374	811,374
Debt Service Funds	0	203,400	49,467	252,867
Capital Projects Funds	0	0	271,804	271,804
Total Fund Balance	1,367,775	203,400	1,658,270	3,229,445
Total Liabilities and Fund Balance	\$3,053,286	\$389,011	\$2,491,500	\$5,933,797

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

City of Port Clinton
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2006

Total Governmental Fund Balance		\$3,229,445
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.		5,591,172
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	28,683	
Accrued Interest Receivable	27,136	
Due from Other Governments	398,133	
Municipal Income Taxes Receivable	318,305	
Property Taxes Receivable	435,156	
Special Assessments Receivable	310,250	
		1,517,663
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities.		1,070
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(2,434)	
Notes Payable	(259,100)	
General Obligations Bonds Payable	(405,103)	
Special Assessment Bonds Payable	(113,352)	
Capital Leases Payable	(351,934)	
Compensated Absences Payable	(123,384)	
		(1,255,307)
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.		126
Net Assets of Governmental Activities		\$9,084,169

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

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2006

	General	General Bond Retirement	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$521,554	\$0	\$0	\$521,554
Municipal Income Taxes	2,142,909	0	0	2,142,909
Other Local Taxes	143,997	0	16,110	160,107
Special Assessments	0	0	20,163	20,163
Charges for Services	199,157	0	390	199,547
Fees, Licenses, and Permits	42,232	0	0	42,232
Fines and Forfeitures	10,921	0	3,244	14,165
Intergovernmental	820,928	0	595,955	1,416,883
Interest	109,559	8,966	56,443	174,968
Other	133,809	0	15,853	149,662
Total Revenues	4,125,066	8,966	708,158	4,842,190
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,449,724	0	75,165	1,524,889
Fire	154,957	0	17,851	172,808
Public Health	206,238	0	0	206,238
Leisure Time Activities	117,450	0	0	117,450
Community Environment	5,814	0	234,339	240,153
Transportation	0	0	389,317	389,317
General Government	1,276,184	0	0	1,276,184
Capital Outlay	0	0	212,741	212,741
Debt Service:				
Principal Retirement	42,754	441,751	15,945	500,450
Interest and Fiscal Charges	3,929	42,337	10,919	57,185
Total Expenditures	3,257,050	484,088	956,277	4,697,415
Excess of Revenues Over (Under) Expenditures	868,016	(475,122)	(248,119)	144,775
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	250,000	0	0	250,000
Inception of Capital Lease	0	375,000	0	375,000
Transfers In	0	298,477	379,843	678,320
Transfers Out	(673,545)	0	(6,367)	(679,912)
Total Other Financing Sources (Uses)	(423,545)	673,477	373,476	623,408
Change in Fund Balance	444,471	198,355	125,357	768,183
Fund Balance Beginning of Year	923,304	5,045	1,532,913	2,461,262
Fund Balance End of Year	<u>\$1,367,775</u>	<u>\$203,400</u>	<u>\$1,658,270</u>	<u>\$3,229,445</u>

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

City of Port Clinton
 Reconciliation of Statement of Revenues, Expenditures,
 and Change in Fund Balance
 of Governmental Funds to Statement of Activities
 For the Year Ended December 31, 2006

Change in Fund Balance - Total Governmental Funds \$768,183

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 depreciation exceeded capital outlay in the current year.

Capital Outlay	119,298	
Depreciation	(372,680)	
	(253,382)	(253,382)

The proceeds from the sale of capital assets are reported as other financing sources in the governmental funds. However, the book value of the capital assets is removed from the capital asset accounts 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

Proceeds from the Sale of Capital Assets	(250,000)	
Gain on Disposal of Capital Assets	208,465	
	(41,535)	(41,535)

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

Property Taxes	176,319	
Municipal Income Taxes	57,851	
Special Assessments	(20,163)	
Charges for Services	(847)	
Fees, Licenses, and Permits	(20,943)	
Intergovernmental	50,609	
Interest	26,702	
	269,528	269,528

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

(375,000)

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

Notes Payable	240,900	
General Obligation Bonds Payable	181,840	
Special Assessment Bonds Payable	15,945	
Capital Leases Payable	61,765	
	500,450	500,450

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

1,299

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

(6,960)

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.

(90,607)

Change in Net Assets of Governmental Activities

\$771,976

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

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$495,520	\$515,350	\$521,554	\$6,204
Municipal Income Taxes	2,159,900	2,160,000	2,142,162	(17,838)
Other Local Taxes	219,167	175,000	143,258	(31,742)
Charges for Services	179,278	228,614	198,467	(30,147)
Fees, Licenses, and Permits	6,093	44,965	42,232	(2,733)
Fines and Forfeitures	8,767	14,500	11,118	(3,382)
Intergovernmental	704,965	580,020	833,290	253,270
Interest	80,278	64,100	89,542	25,442
Other	262,341	751,451	135,044	(616,407)
Total Revenues	4,116,309	4,534,000	4,116,667	(417,333)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,517,437	1,539,637	1,537,015	2,622
Fire	174,678	193,178	172,484	20,694
Public Health	246,896	246,896	219,738	27,158
Leisure Time Activities	151,984	151,984	120,879	31,105
Community Environment	7,491	7,491	6,083	1,408
General Government	1,488,876	1,464,176	1,363,099	101,077
Debt Service:				
Principal Retirement	0	4,055	4,055	0
Interest and Fiscal Charges	0	2,945	2,400	545
Total Expenditures	3,587,362	3,610,362	3,425,753	184,609
Excess of Revenues Over Expenditures	528,947	923,638	690,914	(232,724)
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	0	0	250,000	250,000
Advances In	0	0	3,202	3,202
Transfers In	537,691	120,000	0	(120,000)
Transfers Out	(580,843)	(557,843)	(671,953)	(114,110)
Total Other Financing Sources (Uses)	(43,152)	(437,843)	(418,751)	19,092
Change in Fund Balance	485,795	485,795	272,163	(213,632)
Fund Balance Beginning of Year	321,353	321,353	321,353	0
Prior Year Encumbrances Appropriated	165,739	165,739	165,739	0
Fund Balance End of Year	\$972,887	\$972,887	\$759,255	(\$213,632)

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

City of Port Clinton
Statement of Fund Net Assets
Proprietary Funds
December 31, 2006

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$334,316	\$764,923	\$1,099,239	\$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	126
Accounts Receivable	197,011	332,609	529,620	0
Prepaid Items	6,395	2,906	9,301	0
Materials and Supplies Inventory	39,676	22,587	62,263	0
Total Current Assets	577,398	1,123,025	1,700,423	126
<u>Non-Current Assets</u>				
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	47,056	0	47,056	0
Nondepreciable Capital Assets	32,746	319,761	352,507	0
Depreciable Capital Assets, Net	1,881,977	9,368,019	11,249,996	0
Total Non-Current Assets	1,961,779	9,687,780	11,649,559	0
Total Assets	2,539,177	10,810,805	13,349,982	126
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	4,009	8,902	12,911	0
Accounts Payable	12,062	32,644	44,706	0
Contracts Payable	3,973	62,071	66,044	0
Retainage Payable	0	3,920	3,920	0
Due to Other Governments	9,423	19,136	28,559	0
Matured Bonds Payable	2,537	34,678	37,215	0
Matured Interest Payable	112	1,526	1,638	0
Accrued Interest Payable	12	170	182	0
General Obligation Bonds Payable	2,608	35,645	38,253	0
OPWC Loans Payable	1,514	13,746	15,260	0
OWDA Loans Payable	45,432	189,426	234,858	0
Capital Leases Payable	18,090	18,089	36,179	0
Compensated Absences Payable	8,316	18,108	26,424	0
Total Current Liabilities	108,088	438,061	546,149	0
<u>Non-Current Liabilities</u>				
Deposits Held and Due to Others	47,056	0	47,056	0
General Obligation Bonds Payable	2,679	36,613	39,292	0
OPWC Loans Payable	25,848	226,585	252,433	0
OWDA Loans Payable	742,945	4,431,501	5,174,446	0
Capital Leases Payable	18,968	18,967	37,935	0
Compensated Absences Payable	11,533	40,989	52,522	0
Total Non-Current Liabilities	849,029	4,754,655	5,603,684	0
Total Liabilities	957,117	5,192,716	6,149,833	0
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	1,056,639	4,717,208	5,773,847	0
Unrestricted	525,421	900,881	1,426,302	126
Total Net Assets	\$1,582,060	\$5,618,089	7,200,149	\$126

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.

(1,070)

Net assets of business-type activities

\$7,199,079

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

City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$1,402,686	\$2,153,243	\$3,555,929	\$0
Other	12,799	25,579	38,378	802
Total Operating Revenues	<u>1,415,485</u>	<u>2,178,822</u>	<u>3,594,307</u>	<u>802</u>
<u>Operating Expenses</u>				
Personal Services	341,362	775,333	1,116,695	0
Contractual Services	29,830	342,365	372,195	0
Materials and Supplies	822,082	373,338	1,195,420	0
Bad Debt	165	9,347	9,512	0
Other	0	0	0	125,190
Depreciation	61,626	221,451	283,077	0
Total Operating Expenses	<u>1,255,065</u>	<u>1,721,834</u>	<u>2,976,899</u>	<u>125,190</u>
Operating Income (Loss)	<u>160,420</u>	<u>456,988</u>	<u>617,408</u>	<u>(124,388)</u>
<u>Non-Operating Revenues (Expenses)</u>				
Grants	8,450	35,628	44,078	0
Interest Revenue	0	48	48	1,440
Interest Expense	(48,682)	(191,271)	(239,953)	0
Loss on Disposal of Capital Assets	0	(18,367)	(18,367)	0
Total Non-Operating Revenues (Expenses)	<u>(40,232)</u>	<u>(173,962)</u>	<u>(214,194)</u>	<u>1,440</u>
Income (Loss) before Transfers	120,188	283,026	403,214	(122,948)
Transfers In	<u>796</u>	<u>796</u>	<u>1,592</u>	<u>0</u>
Change in Net Assets	120,984	283,822	404,806	(122,948)
Net Assets Beginning of Year	<u>1,461,076</u>	<u>5,334,267</u>		<u>123,074</u>
Net Assets End of Year	<u>\$1,582,060</u>	<u>\$5,618,089</u>		<u>\$126</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 loss of the internal service fund. (32,341)

Change in net assets of business-type activities \$372,465

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

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities			Governmental
	Water	Sewer	Total Enterprise Funds	Activity Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,395,134	\$2,102,098	\$3,497,232	\$0
Cash Received from Other Revenues	12,799	25,579	38,378	802
Cash Payments for Personal Services	(352,224)	(763,482)	(1,115,706)	0
Cash Payments for Contractual Services	(32,286)	(385,760)	(418,046)	0
Cash Payments to Vendors	(820,533)	(284,520)	(1,105,053)	0
Cash Payments for Other Expenses	0	0	0	(125,190)
Net Cash Provided by (Used for) Operating Activities	202,890	693,915	896,805	(124,388)
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers In	796	796	1,592	0
Grants	8,450	72,048	80,498	0
Net Cash Provided by Noncapital Financing Activities	9,246	72,844	82,090	0
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on OPWC Loans	(1,515)	(13,745)	(15,260)	0
Principal Paid on OWDA Loans	(43,047)	(182,266)	(225,313)	0
Lease Principal	(17,484)	(17,485)	(34,969)	0
Interest Paid on General Obligation Bonds	(112)	(1,527)	(1,639)	0
Interest Paid on OWDA Loans	(46,061)	(185,899)	(231,960)	0
Lease Interest	(2,404)	(2,403)	(4,807)	0
Acquisition of Capital Assets	(35,691)	(174,093)	(209,784)	0
Net Cash Used for Capital and Related Financing Activities	(146,314)	(577,418)	(723,732)	0
<u>Cash Flows from Investing Activities</u>				
Interest	0	48	48	1,440
Net Increase (Decrease) in Cash and Cash Equivalents	65,822	189,389	255,211	(122,948)
Cash and Cash Equivalents Beginning of Year	315,550	575,534	891,084	123,074
Cash and Cash Equivalents End of Year	<u>\$381,372</u>	<u>\$764,923</u>	<u>\$1,146,295</u>	<u>\$126</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Operating Income (Loss)	\$160,420	\$456,988	\$617,408	(\$124,388)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>				
Depreciation	61,626	221,451	283,077	0
Provision for Uncollectible Accounts	165	9,347	9,512	0
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(7,552)	(51,145)	(58,697)	0
Decrease in Prepaid Items	1,563	408	1,971	0
Increase in Materials and Supplies Inventory	(16,613)	(16,710)	(33,323)	0
Increase (Decrease) in Accrued Wages Payable	(121)	1,608	1,487	0
Increase (Decrease) in Accounts Payable	3,602	(3,139)	463	0
Increase in Contracts Payable	3,973	60,833	64,806	0
Increase in Retainage Payable	0	3,920	3,920	0
Increase in Due to Other Governments	682	3,877	4,559	0
Increase (Decrease) in Compensated Absences Payable	(11,435)	6,477	(4,958)	0
Increase in Deposits Held and Due to Others	6,580	0	6,580	0
Net Cash Provided by (Used for) Operating Activities	<u>\$202,890</u>	<u>\$693,915</u>	<u>\$896,805</u>	<u>(\$124,388)</u>

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

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2006

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$1,721</u></u>
 <u>Liabilities</u>	
Undistributed Assets	<u><u>\$1,721</u></u>

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

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

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Port Clinton in 2006.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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.

General Bond Retirement Fund - The General Bond Retirement fund accounts for the payment of principal and interest on general obligation debt.

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

Proprietary Funds

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

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

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2006. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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, 2006, but were levied to finance 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

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

During 2006, the City's investments included nonnegotiable certificates of deposit, repurchase agreements, mutual funds, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit and repurchase agreements are reported at cost. Investments are reported at fair value, which is based on current share price or quoted market price. 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, 2006.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2006 was \$109,559, which includes \$58,627 assigned from other City funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

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

J. Capital Assets

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

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

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

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes consists of 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, 2006, there were no net assets restricted by enabling legislation.

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 interfund receivable, 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. Interfund Transactions

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

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities.

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.

R. 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 PRINCIPLE

For 2006, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 47, "Accounting for Termination Benefits". This statement establishes accounting standards for termination benefits.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2006, the Fire Levy special revenue fund had a deficit fund balance, in the amount of \$17,851, which resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

B. Compliance

The General Fund had expenditures in excess of appropriations for transfers out, in the amount of \$114,110.

The legal level of control that the City is reporting in the financial statements is at the fund/department level for the General Fund and the fund level for all other funds. The Ohio Revised Code requires that the minimum legal level be reported at the department level and identifying personal services and other expenditures within each department.

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 Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - for the General Fund is 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, 2006

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	
GAAP Basis	\$444,471
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2005, Received in Cash 2006	465,290
Accrued 2006, Not Yet Received in Cash	(450,929)
Expenditure Accruals:	
Accrued 2005, Paid in Cash 2006	(144,789)
Accrued 2006, Not Yet Paid in Cash	134,379
Cash Adjustments:	
Unrecorded Activity 2005	4,767
Unrecorded Activity 2006	(25,797)
Prepaid Items	3,567
Materials and Supplies Inventory	3,811
Advances In	3,202
Encumbrances Outstanding at Year End (Budget Basis)	(165,809)
Budget Basis	\$272,163

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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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).

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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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.

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$237,383 of the City's bank balance of \$1,160,264 was exposed to custodial credit risk because it 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 has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2006, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreements	\$1,607,844	1/2/07
Mutual Funds	5,487	44 days
Federal Home Loan Mortgage Corporation Notes	242,050	9/15/07
Federal Home Loan Bank Bonds	222,968	6/18/07
Federal Home Loan Bank Bonds	224,886	2/15/07
STAR Ohio	356,555	35 days
Total Investments	<u>\$2,659,790</u>	

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

The securities underlying the repurchase agreements (Federal Home Loan Mortgage Corporation Notes) carry a rating of AAA by Moodys. The mutual funds and federal agency securities also carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that the market value of repurchase agreements in qualified investments must exceed the principal value by at least 2 percent, be marked to market daily, and the term must not exceed thirty days. Mutual funds must consist of qualified securities or repurchase agreements secured by such securities and have the highest rating by at least one nationally recognized standard rating service. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

The City places no limit on the amount of its interim monies it may invest in a particular security. The following table indicates the percentage of investments to the City's total portfolio:

	Fair Value	Percentage of Portfolio
Federal Home Loan Mortgage Corporation	\$242,050	9.1%
Federal Home Loan Bank	447,854	16.8

NOTE 7 - RECEIVABLES

Receivables at December 31, 2006, 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 \$471,268, will not be received within one year. Special assessments receivable, in the amount of \$284,185, will not be received within one year. At December 31, 2006, the amount of delinquent special assessments was \$76,359.

A summary of the changes in notes receivable during 2006 follows:

	Balance December 31, 2005	New Loans	Repayments	Balance December 31, 2006
Special Revenue Fund				
CDBG	\$155,978	\$0	\$7,035	\$148,943
HPG	207,572	0	6,825	200,747
HOME	59,761	79,567	0	139,328
	\$423,311	\$79,567	\$13,860	\$489,018

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 7 - RECEIVABLES (continued)

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$210,678	\$363,985	\$574,663
Less Allowance for Uncollectibles	13,667	31,376	45,043
Net Accounts Receivable	\$197,011	\$332,609	\$529,620

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$28,088
Personal Property Phase-Out	1,589
Local Government	208,874
Beer and Liquor Permits	9,554
Municipal Court Fines	128
Total General Fund	248,233
Nonmajor Funds	
Fire Levy	
Homestead and Rollback	11,151
State Highway	
Gasoline Tax	9,862
Motor Vehicle License Tax	4,716
Total State Highway	14,578
Street Maintenance	
Gasoline Tax	121,796
Motor Vehicle License Tax	58,165
Total Street Maintenance	179,961
Drug Law Enforcement	
Municipal Court Fines	129
Law Enforcement Trust	
Municipal Court Fines	50

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 7 - RECEIVABLES (continued)

	<u>Amount</u>
Governmental Activities (continued)	
Nonmajor Funds (continued)	
CDBG	
CDBG Grant	\$6,342
Total Nonmajor Funds	<u>212,211</u>
Total Governmental Activities	<u><u>\$460,444</u></u>

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 two-thirds credit 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 2006 represent the collection of 2005 taxes. Real property taxes received in 2006 were levied after October 1, 2005, on the assessed values as of January 1, 2005, 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 2006 represent the collection of 2005 taxes. Public utility real and tangible personal property taxes received in 2006 became a lien on December 31, 2004, were levied after October 1, 2005, 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.

Tangible personal property tax revenues received in 2006 (other than public utility property) represent the collection of 2006 taxes. Tangible personal property taxes received in 2006 were levied after October 1, 2005, on the true value as of December 31, 2005. In prior years, tangible personal property was assessed at 25 percent of true value for capital assets and 23 percent for inventory. The tangible personal property tax is being phased out. The assessment percentage for all property, including inventory, for 2006 is 18.75 percent. This will be reduced to 12.5 percent for 2007, 6.25 percent for 2008, and zero for 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 9 - PROPERTY TAXES (continued)

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, 2006, and for which there was an enforceable legal claim. In governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2006 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable has been deferred.

The full tax rate for all City operations for the year ended December 31, 2006, was \$4.20 per \$1,000 of assessed value.

The assessed values of real property, public utility property, and tangible personal property upon which 2006 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$93,416,290
Commercial/Industrial	31,976,720
Public Utility Real	16,180
Public Utility Personal	6,359,090
Tangible Personal	4,392,217
Total	\$136,160,497

In November 2006, the voters approved a 1.9 mill operating levy for the fire department.

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2006, was as follows:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$516,482	\$0	\$0	\$516,482
Construction in Progress	591,655	0	(591,655)	0
Total Nondepreciable Capital Assets	1,108,137	0	(591,655)	516,482

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Governmental Activities (continued):				
Depreciable Capital Assets				
Land Improvements	\$20,787	\$165,991	\$0	\$186,778
Buildings and Improvements	1,532,811	425,664	(228,977)	1,729,498
Furniture, Fixtures, and Equipment	1,219,581	31,897	(225,000)	1,026,478
Vehicles	1,448,018	0	(129,666)	1,318,352
Streets	7,796,420	87,401	0	7,883,821
Total Depreciable Capital Assets	12,017,617	710,953	(583,643)	12,144,927
Less Accumulated Depreciation for				
Land Improvements	(3,638)	(9,339)	0	(12,977)
Buildings and Improvements	(525,307)	(38,602)	202,663	(361,246)
Furniture, Fixtures, and Equipment	(624,860)	(79,559)	211,458	(492,961)
Vehicles	(1,301,598)	(49,341)	127,987	(1,222,952)
Streets	(4,784,262)	(195,839)	0	(4,980,101)
Total Accumulated Depreciation	(7,239,665)	(372,680)	542,108	(7,070,237)
Total Depreciable Capital Assets, Net	4,777,952	338,273	(41,535)	5,074,690
Governmental Activities Capital Assets, Net	\$5,886,089	\$338,273	(\$633,190)	\$5,591,172
	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552	\$0	\$0	\$12,552
Construction in Progress	185,998	153,957	0	339,955
Total Nondepreciable Capital Assets	198,550	153,957	0	352,507
Depreciable Capital Assets				
Land Improvements	13,965	0	0	13,965
Buildings and Improvements	11,128,995	0	(95,500)	11,033,495
Furniture, Fixtures, and Equipment	594,730	18,177	(63,000)	549,907
Vehicles	94,814	0	(39,770)	55,044
Water, Sewer, and Storm Sewer Lines	2,564,231	0	0	2,564,231
Total Depreciable Capital Assets	14,396,735	18,177	(198,270)	14,216,642

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
Business-Type Activities (continued):				
Less Accumulated Depreciation for				
Land Improvements	(\$3,840)	(\$698)	\$0	(\$4,538)
Buildings and Improvements	(2,131,826)	(190,194)	77,133	(2,244,887)
Furniture, Fixtures, and Equipment	(209,151)	(33,558)	63,000	(179,709)
Vehicles	(61,370)	(7,340)	39,770	(28,940)
Water, Sewer, and Storm Sewer Lines	(457,285)	(51,287)	0	(508,572)
Total Accumulated Depreciation	(2,863,472)	(283,077)	179,903	(2,966,646)
Total Depreciable Capital Assets, Net	11,533,263	(264,900)	(18,367)	11,249,996
Business-Type Activities Capital Assets, Net	\$11,731,813	(\$110,943)	(\$18,367)	\$11,602,503

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$62,903
Security of Persons and Property - Fire	19,361
Public Health	13,892
Leisure Time Activities	12,735
Transportation	244,987
General Government	18,802
Total Depreciation Expense - Governmental Activities	\$372,680

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2006, the General Fund had an interfund receivable, in the amount of \$38,515, for a loan made to other governmental funds. Of this amount, \$35,129 is not scheduled to be collected within one year.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2006, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$11,465,436	\$1,000
Special Property	1,507,442	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 2005, and no insurance settlement has exceeded insurance coverage during the last three years.

Through May 31, 2005, the City provided employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participated in the self-insurance program and made payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. The City utilized a claims servicing pool, the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) to process all claims. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. At December 31, 2006, the City had \$126 on deposit with OME-RESA.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - RISK MANAGEMENT (continued)

For 2006, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2006, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
B.E.C. Associates	Study	\$2,500
Floyd Browne	Engineer - Phase II WWTP	44,600
Floyd Browne	Engineer - Phase I WWTP	15,200
Floyd Browne	Engineer - West Third Street Waterline	8,536
Floyd Browne	Engineer - 2nd/Laurel Storm Drainage	6,500
Floyd Browne	Engineer - Odor Control	46,843
Floyd Browne	Engineer - WWTP Operations	9,614
Floyd Browne	Engineer - Sewer Study	13,800
Focht Construction	Roof - Headworks Building	66,000
Masonry Construction	Remodel City Hall Offices	12,487
Or-Tec Incorporated	Sludge Belt Press	110,005
Or-Tec Incorporated	Grinder/Macerator	14,957
Poggemyer Design Group	Waterworks Redevelopment	2,693
SWFC	Firestation Remodel	9,600

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2006, members of all three plans were required to contribute 9 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2006 was 9.2 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, 2006, 2005, and 2004 was \$166,962, \$178,694, and \$196,032, respectively; 99 percent has been contributed for 2006 and 100 percent has been contributed for 2005 and 2004. The unpaid contribution for 2006, in the amount of \$2,595, is recorded as a liability. Contributions to the member-directed plan for 2006 were \$9,386 made by the City and \$6,166 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, 2006, 2005, and 2004 were \$86,450, \$82,771, and \$80,210, respectively; 74 percent has been contributed for 2006 and 100 percent has been contributed for 2005 and 2004. The unpaid contribution for 2006, in the amount of \$22,698, is recorded as a liability.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2006 employer contribution rate was 13.7 percent of covered payroll; 4.5 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2005, include a rate of return on investments of 6.5 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 .5 to 6 percent annually for the next nine years and 4 percent annually after nine 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, not to exceed a 12 percent corridor.

The number of active contributing participants in the traditional and combined plans was 369,214. Actual employer contributions for 2006 which were used to fund postemployment benefits were \$86,257. 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, 2005 (the latest information available) was \$11.1 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$31.3 billion and \$20.2 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 increasing health care costs. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, and January 1, 2007, which will allow additional funds to be allocated to the health care plan.

B. Ohio Police and Fire Pension Fund

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the OPF's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2006. 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 2006 that were used to fund postemployment benefits were \$57,020 for police. The OPF's total health care expense for the year ended December 31, 2005 (the latest information available), was \$108,039,449, which was net of member contributions of \$55,271,881. The number of OPF participants eligible to receive health care benefits as of December 31, 2005, was 13,922 for police and 10,537 for firefighters.

NOTE 16 - COMPENSATED ABSENCES

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

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

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

NOTE 17 - NOTES PAYABLE

The changes in the City's notes payable during 2006 were as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006
<u>Governmental Activities</u>					
2005 Fire Station	3.64%	\$500,000	\$0	\$240,900	\$259,100

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 17 - NOTES PAYABLE (continued)

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

At December 31, 2006, the amount of bond anticipation notes outstanding was \$259,100, of which \$243,068 had been expended.

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2006, was as follows:

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	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%	\$38,703	\$0	\$4,055	\$34,648	\$4,055
2002 Various Purpose (Original Amount \$1,271,000)	2.855	548,240	0	177,785	370,455	182,747
Total General Obligation Bonds		586,943	0	181,840	405,103	186,802
<u>Special Assessment Bonds</u>						
1990 South Madison Street (Original Amount \$132,500)	7.4	35,000	0	7,000	28,000	7,000
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	66,297	0	6,945	59,352	6,945
1995 Fulton Street (Original Amount \$48,530)	6.5	28,000	0	2,000	26,000	2,000
Total Special Assessment Bonds		129,297	0	15,945	113,352	15,945
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		38,699	375,000	61,765	351,934	47,710
Compensated Absences Payable		116,424	6,960	0	123,384	58,954
Total Other Long-Term Obligations		155,123	381,960	61,765	475,318	106,664
Total Governmental Activities		\$871,363	\$381,960	\$259,550	\$993,773	\$309,411

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Due Within One Year
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
2002 General Obligation Bonds (Original Amount \$220,000)	2.855%	\$114,760	\$0	\$37,215	\$77,545	\$38,253
<u>OPWC Loans</u>						
2002 OPWC Loans Payable (Original Amount \$28,000)	0%	23,100	0	1,400	21,700	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)	0	192,724	0	10,417	182,307	10,418
2004 OPWC Loans Payable (Original Amount \$40,934)	0	67,129	0	3,443	63,686	3,442
Total OPWC Loans		282,953	0	15,260	267,693	15,260
<u>OWDA Loans</u>						
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54	831,424	0	43,047	788,377	45,432
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	4,803,193	0	182,266	4,620,927	189,426
Total OWDA Loans		5,634,617	0	225,313	5,409,304	234,858
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		109,083	0	34,969	74,114	36,179
Compensated Absences Payable		83,904	12,136	17,094	78,946	26,424
Total Other Long-Term Obligations		192,987	12,136	52,063	153,060	62,603
Total Business-Type Activities		\$6,225,317	\$12,136	\$329,851	\$5,907,602	\$350,974

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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 18 - 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.

OWDA Loans Payable

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

The City's legal debt margin was \$14,296,852 at December 31, 2006.

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2006, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2007	\$186,802	\$12,724	\$15,945	\$7,442
2008	191,763	7,257	16,945	6,363
2009	4,423	1,646	17,577	5,219
2010	4,423	1,371	17,577	4,037
2011	4,423	1,097	10,577	2,854
2012 to 2015	13,269	1,645	34,731	4,766
Total	\$405,103	\$25,740	\$113,352	\$30,681

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2006, from the business-type activities were as follows:

Year	General Obligation Bonds		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2007	\$38,253	\$2,213	\$15,260	\$234,858	\$222,416
2008	39,292	1,121	15,260	244,815	212,459
2009	0	0	15,260	255,205	202,069
2010	0	0	15,260	266,043	191,229
2011	0	0	15,260	277,354	179,920
2012 to 2016	0	0	76,300	1,574,442	711,926
2017 to 2021	0	0	76,300	1,708,363	354,934
2022 to 2024	0	0	38,793	848,224	351,359
Total	\$77,545	\$3,334	\$267,693	\$5,409,304	\$2,426,312

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment and vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds and as a reduction of the liability in the enterprise funds. Principal payments in 2006 were \$61,765 for governmental funds and \$34,969 for enterprise funds.

	Governmental Activities	Business-Type Activities
Equipment	\$0	\$149,083
Vehicles	116,155	0
Less Accumulated Depreciation	(58,077)	(24,847)
Total	\$58,078	\$124,236

The City did not take delivery of the new \$375,000 fire truck acquired under capital lease until subsequent to year end. The \$375,000 is reported as cash and cash equivalents with fiscal agent in the General Bond Retirement governmental fund December 31, 2006 balance sheet.

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, 2006.

	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$47,710	\$15,392	\$36,179	\$3,598
2008	49,894	13,208	37,935	1,841
2009	52,177	10,925	0	0
2010	54,565	8,537	0	0
2011	57,062	6,040	0	0
2012-2013	90,526	4,127	0	0
Total	\$351,934	\$58,229	\$74,114	\$5,439

NOTE 20 - INTERFUND TRANSFERS

During 2006, the General Fund made transfers to other governmental funds, in the amount of \$671,953; \$292,110 as debt payments came due and \$379,843 to subsidize activities of the various funds. The General Fund also made transfers to the Water and Sewer enterprise funds, in the amount of \$796 each, to subsidize operations.

Other governmental funds made transfers to other governmental funds, in the amount of \$6,367, as debt payments came due.

NOTE 21 - INSURANCE POOLS

A. Ohio Government Risk Management Plan

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

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

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

NOTE 22 - CONTINGENT LIABILITIES

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

NOTE 23 - SUBSEQUENT EVENT

On September 19, 2007, the City issued \$925,000 in bond anticipation notes, \$750,000 for sewer system improvements and \$175,000 for street improvements. The notes have an interest rate of 3.93 percent.

On October 25, 2007, the City issued \$695,000 in bond anticipation notes for sewer system improvements. The notes have an interest rate of 3.88 percent.

In 2004, an odor control building was constructed as a component of phase 1 under the waste water treatment plan consent decree with the United States Environmental Protection Agency. This building began to pull away from the attached structure and was subsequently razed. An impairment loss will be recognized and in December 2007, the City filed a lawsuit against the general contractor for damages in excess of \$500,000.



**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be a significant deficiencies in internal control over financial reporting described in Items 2006-1, 2006-2, and 2006-3.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The Members of City Council
City of Port Clinton

Internal Control Over Financial Reporting, Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described in Item 2006-1, 2006-2 and 2006-3 are also material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Port Clinton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the City's response and, accordingly, we express no opinion on it.

We also noted certain immaterial instances of noncompliance that we have reported to management of the City of Port Clinton in a separate letter dated February 22, 2008.

This report is intended solely for the information and use of management and City council and should not be used by anyone other than these specified parties.

Clifton Henderson LLP

Toledo, Ohio
February 22, 2008

CITY OF PORT CLINTON, OHIO

Schedule of Findings and Responses

Reference 2006-1 – Bank Reconciliations

Criteria

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

Condition

Bank reconciliations were not completed timely throughout 2006.

Effect

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

Recommendation

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

City's Response and Planned Corrective Action

The treasurer contracted with Local Government Services for assistance and the 2006 bank reconciliations were completed in October 2007.

Reference 2006-2 – Segregation of Duties – Payroll Cycle

Criteria

Segregation of duties is a key component of internal controls.

Condition

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

Effect

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

Recommendation

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

City's Response and Planned Corrective Action

We will take this recommendation under consideration.

CITY OF PORT CLINTON, OHIO

Schedule of Findings and Responses, Continued

Reference 2006-3 – Segregation of Duties – Disbursements

Criteria

Segregation of duties is a key component of internal controls.

Condition

The deputy auditor is responsible for disbursement processing which includes the check printing, electronically signing and mailing. In addition, we identified instances for which the invoice did not indicate approval by the requisitioning department manager and a duplicate payment.

We also noted access to the electronic check writer is restricted by the use of a key and a code. Based on our inquiry, the code has never been changed and the key is maintained in the check writing machine.

Effect

Errors or irregularities may go undetected and there was no mitigating control of the timely completion of the monthly bank reconciliation during 2006.

Recommendation

We recommend the check register, along with the checks, be reviewed by someone other than the deputy auditor. This review should be documented by the initialing and dating of the register. This individual could also spot check several invoices for proper approvals and documentation.

In addition, we recommend at a minimum the key to the electronic check writer be maintained in a locked file cabinet with access to such cabinet limited to those with check writing authority.

City's Response and Planned Corrective Action

We will take this recommendation under consideration.



Mary Taylor, CPA
Auditor of State

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
APRIL 10, 2008