



Dave Yost • Auditor of State

**CITY OF PORT CLINTON
OTTAWA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities.....	12
Fund Financial Statements:	
Statement of Assets and Fund Balances – Governmental Funds	14
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities.....	15
Statement of Revenues, Expenditures, and Change in Fund Balance – Governmental Funds	16
Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to the Statement of Activities	17
Statement of Revenues, Expenditures, and Change in Fund Balance – Budget (Non-GAAP Budgetary Basis) and Actual – General Fund.....	18
Statement of Fund Net Assets – Enterprise Funds	19
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Enterprise Funds	20
Statement of Cash Flows – Enterprise Funds	21
Statement of Fiduciary Assets and Liabilities – Agency Funds	23
Notes to the Basic Financial Statements	25
Independent Accountants' Report on Internal Controls Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	57
Schedule of Prior Audit Findings.....	59

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 2011, and the respective changes in financial position and where applicable, cash flows, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis*, as listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any other assurance.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "Y" and "O".

Dave Yost
Auditor of State

December 7, 2012

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED**

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, 2011. 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 \$5,238,272, or 21 percent. Governmental activities increased 5 percent and business-type activities increased 36 percent. The increase for business-type activities is due to an operating income in both the Water and Sewer enterprise funds as well as capital contributions in excess of \$3.1 million for infrastructure.

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, 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 2011. 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 taxes and income taxes and from intergovernmental revenues, including federal and state grants and other shared revenues.

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

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund financial statements provide detailed information about the City's major funds, the General, 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.

Enterprise Funds - The City's 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.

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
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2011 and 2010.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Assets</u>						
Current and Other Assets	\$5,058,476	\$4,857,810	\$3,189,264	\$2,023,923	\$8,247,740	\$6,881,733
Capital Assets, Net	8,815,148	8,612,456	29,272,600	23,507,284	38,087,748	32,119,740
Total Assets	<u>13,873,624</u>	<u>13,470,266</u>	<u>32,461,864</u>	<u>25,531,207</u>	<u>46,335,488</u>	<u>39,001,473</u>
<u>Liabilities</u>						
Current and Other Liabilities	1,056,304	1,063,430	299,289	267,971	1,355,593	1,331,401
Long-Term Liabilities	426,678	634,159	14,604,566	12,325,534	15,031,244	12,959,693
Total Liabilities	<u>1,482,982</u>	<u>1,697,589</u>	<u>14,903,855</u>	<u>12,593,505</u>	<u>16,386,837</u>	<u>14,291,094</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	8,546,353	8,177,282	14,781,098	11,279,621	23,327,451	19,456,903
Restricted	2,070,332	2,146,506			2,070,332	2,146,506
Unrestricted	1,773,957	1,448,889	2,776,911	1,658,081	4,550,868	3,106,970
Total Net Assets	<u>\$12,390,642</u>	<u>\$11,772,677</u>	<u>\$17,558,009</u>	<u>\$12,937,702</u>	<u>\$29,948,651</u>	<u>\$24,710,379</u>

The overall increase in net assets for governmental activities was 5 percent and generally due to the excess of revenues over expenses for the year. Revenues were very similar to the prior year in total and there was a modest decrease in expenses which provided for the increase. This excess contributed to the increase in current and other assets and unrestricted net assets reflected above and was generally cash and cash equivalents. The decrease in long-term liabilities and increase in invested in capital assets is due to the payment/reduction of debt.

Net assets for business-type activities reflects a substantial increase, 36 percent. Several factors contributed to the overall increase in current and other assets. There was an increase in cash and cash equivalents resulting from charges for services and an increase in accounts receivable due, in part, to the City modifying its billing cycle and having an additional cycle for the year. The increase in net capital assets reflects additional construction, paid in part with debt proceeds (note the increase in long-term liabilities) and a significant contribution of capital assets from Ottawa County (\$3.1 million). This is also reflected in the increase in invested in capital assets.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Table 2 reflects the change in net assets for 2011 and 2010.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$482,591	\$501,210	\$5,173,800	\$4,267,354	\$5,656,391	\$4,768,564
Operating Grants, Contributions, and Interest	516,432	1,071,379	15,000		531,432	1,071,379
Capital Grants and Contributions	461,545	190,239	3,148,418	2,307,101	3,609,963	2,497,340
Total Program Revenues	<u>1,460,568</u>	<u>1,762,828</u>	<u>8,337,218</u>	<u>6,574,455</u>	<u>9,797,786</u>	<u>8,337,283</u>
General Revenues						
Property Taxes Levied for General Purposes	552,383	570,132			552,383	570,132
Property Taxes Levied for Fire Operations	229,682	229,425			229,682	229,425
Municipal Income Taxes	2,177,113	2,083,235			2,177,113	2,083,235
Other Local Taxes	163,860	156,798			163,860	156,798
Payment in Lieu of Taxes	20,161	32,890			20,161	32,890
Grants and Entitlements not Restricted to Specific	801,855	564,796			801,855	564,796
Programs						
Franchise Fees	50,582	50,817			50,582	50,817
Interest	25,552	27,780			25,552	27,780
Other	39,432	40,108	50,660	7,523	90,092	47,631
Total General Revenues	<u>4,060,620</u>	<u>3,755,981</u>	<u>50,660</u>	<u>7,523</u>	<u>4,111,280</u>	<u>3,763,504</u>
Total Revenues	<u>5,521,188</u>	<u>5,518,809</u>	<u>8,387,878</u>	<u>6,581,978</u>	<u>13,909,066</u>	<u>12,100,787</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,812,222	1,906,801			1,812,222	1,906,801
Fire	321,198	302,588			321,198	302,588
Public Health	192,676	205,794			192,676	205,794
Leisure Time Activities	68,797	65,607			68,797	65,607
Community Environment	163,495	404,528			163,495	404,528
Transportation	920,937	712,886			920,937	712,886
General Government	1,405,245	1,467,995			1,405,245	1,467,995
Interest and Fiscal Charges	18,653	28,652			18,653	28,652

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Water			1,563,575	1,443,610	1,563,575	1,443,610
Sewer			2,203,996	2,127,397	2,203,996	2,127,397
Total Expenses	<u>4,903,223</u>	<u>5,094,851</u>	<u>3,767,571</u>	<u>3,571,007</u>	<u>8,670,794</u>	<u>8,665,858</u>
Increase in Net Assets Before Transfers	617,965	423,958	4,620,307	3,010,971	5,238,272	3,434,929
Transfers		19,196		(19,196)		
Increase in Net Assets	<u>617,965</u>	<u>443,154</u>	<u>4,620,307</u>	<u>2,991,775</u>	<u>5,238,272</u>	<u>3,434,929</u>
Net Assets Beginning of Year	<u>11,772,677</u>	<u>11,329,523</u>	<u>12,937,702</u>	<u>9,945,927</u>	<u>24,710,379</u>	<u>21,275,450</u>
Net Assets End of Year	<u>\$12,390,642</u>	<u>\$11,772,677</u>	<u>\$17,558,009</u>	<u>\$12,937,702</u>	<u>\$29,948,651</u>	<u>\$24,710,379</u>

For governmental activities, there was a 17 percent decrease in program revenues, primarily due to a decrease in operating grants and contributions. For 2011, the City received fewer grant resources, for example, CHIP grant resources were lower than in the prior year. The increase in capital grants and contributions resulted from grants for various capital acquisitions including a trailer, forklift, road grader, and vehicle. General revenues remained fairly similar to the prior year with modest increases in income taxes and unrestricted grants and entitlements.

Governmental activities expenses also remained fairly similar to the prior year. The most significant changes occurred in the community environment program which had a larger number of community development block grants projects in the prior year and in the transportation program which had more street improvement activities in 2011.

For business-type activities, program revenues made up over 99 percent of total revenues for 2011. The increase in capital grants and contributions reflects the contribution of a sewer line to the City by Ottawa County and is primarily the reason for the significant increase in net capital assets. Expenses were similar to those of the prior year.

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

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Security of Persons and Property				
Police	\$1,812,222	\$1,906,801	\$1,511,121	\$1,665,860
Fire	321,198	302,588	185,279	162,207
Public Health	192,676	205,794	159,940	177,323
Leisure Time Activities	68,797	65,607	37,858	(10,927)
Community Environment	163,495	404,528	5,487	51,275
Transportation	920,937	712,886	334,903	95,300
General Government	1,405,245	1,467,995	1,189,415	1,162,333
Interest and Fiscal Charges	18,653	28,652	18,653	28,652
Total Expenses	\$4,903,223	\$5,094,851	\$3,442,655	\$3,332,023

With general revenues providing for 70 percent of the City's program costs in 2011 (slightly higher than in 2010), the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As noted above, the City's police operations are substantially funded through general revenues. The same can be said for general government operations. The fire department and leisure time activities program benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of 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 only major governmental fund is the General Fund. Fund balance increased significantly in 2011 (39 percent). This is the result of a modest 3 percent increase in revenues and 3 percent decrease in expenditures.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. Net assets increased 39 percent in the Water Fund and 35 percent in the Sewer Fund. Both funds had an increase in charges for services due to a change in the City's billing cycle process. In addition, the Sewer Fund had a contribution of capital assets of over \$3.1 million from Ottawa County.

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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011
UNAUDITED
(Continued)**

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget were not significant; however, the City received over \$350,000 more in revenues than reflected in the final budget and generally due to conservative budgeting of amounts to be received from the State. For expenditures, there was little change from the original budget to the final budget. There was a savings of 13 percent from the final budget to actual expenditures due to conservative budgeting and savings were realized in all programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2011, was \$8,546,353 and \$14,781,098, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted land on Beech Street, street construction, a trailer, forklift, road grader, and vehicles. Deletions included a boat and vehicles. For business-type activities, the primary increases were related to continued improvements at the wastewater treatment plant, water and sewer line improvements, a vac system, and vehicles. Disposals for business-type activities were not significant. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2011, the City had \$178,269 in general obligation bonds and \$34,731 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$3,420,000 in general obligation bonds, \$191,393 in OPWC loans, and \$10,668,721 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 debt, refer to Notes 17 and 18 to the basic financial statements.

CURRENT ISSUES

Current issues and events in the City include the following:

- The City has almost completed engineering the reconstruction of Sixth Street from Harrison Street to Fulton Street. The combined sewer system will also be separated in the area. The Ohio Department of Transportation will provide for 80 percent of the construction cost and the City is seeking funding from the Ohio Public Works Commission for \$175,000. Total estimated cost of the project is \$1.6 million.
- The City is looking for financing to continue the repaving of Fulton Street. The Ohio Public Works Commission has been identified as the potential source of this revenue.

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 Larry Hartlaub, City Auditor, 1868 Perry Street, Port Clinton, Ohio 43452.

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF NET ASSETS
DECEMBER 31, 2011

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,950,883	\$1,755,481	\$3,706,364
Accounts Receivable	59,694	1,382,788	1,442,482
Accrued Interest Receivable	4,752		4,752
Due from Other Governments	512,400		512,400
Municipal Income Taxes Receivable	700,198		700,198
Other Local Taxes Receivable	8,026		8,026
Materials and Supplies Inventory	15,337	50,995	66,332
Property Taxes Receivable	838,338		838,338
Notes Receivable	749,789		749,789
Special Assessments Receivable	206,330		206,330
Payment in Lieu of Taxes Receivable	12,729		12,729
Nondepreciable Capital Assets	2,414,869	9,129,683	11,544,552
Depreciable Capital Assets, Net	6,400,279	20,142,917	26,543,196
Total Assets	<u>13,873,624</u>	<u>32,461,864</u>	<u>46,335,488</u>
<u>Liabilities</u>			
Accrued Wages Payable	70,792	25,022	95,814
Accounts Payable	29,009	21,689	50,698
Contracts Payable	8,720	69,973	78,693
Due to Other Governments	142,621	102,464	245,085
Deferred Revenue	804,405		804,405
Accrued Interest Payable	757	10,688	11,445
Deposits Held and Due to Others		69,453	69,453
Long-Term Liabilities			
Due Within One Year	131,124	556,000	687,124
Due in More Than One Year	295,554	14,048,566	14,344,120
Total Liabilities	<u>1,482,982</u>	<u>14,903,855</u>	<u>16,386,837</u>
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	8,546,353	14,781,098	23,327,451
Restricted for			
Debt Service	126,276		126,276
Capital Projects	226,548		226,548
Security of Persons and Property - Fire	412,777		412,777
Community Environment	861,474		861,474
Other Purposes	443,257		443,257
Unrestricted	1,773,957	2,776,911	4,550,868
Total Net Assets	<u>\$12,390,642</u>	<u>\$17,558,009</u>	<u>\$29,948,651</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,812,222	\$41,576	\$44,421	\$215,105
Fire	321,198	135,094	825	
Public Health	192,676	32,736		
Leisure Time Activities	68,797	21,932	9,007	
Community Environment	163,495		156,008	2,000
Transportation	920,937	71,423	286,171	228,440
General Government	1,405,245	179,830	20,000	16,000
Interest and Fiscal Charges	18,653			
Total Governmental Activities	4,903,223	482,591	516,432	461,545
<u>Business-Type Activities</u>				
Water	1,563,575	2,509,770	15,000	
Sewer	2,203,996	2,664,030		3,148,418
Total Business-Type Activities	3,767,571	5,173,800	15,000	3,148,418
Total	\$8,670,794	\$5,656,391	\$531,432	\$3,609,963

General Revenues

Property Taxes Levied for General Purposes
Property Taxes Levied for Fire Operations
Municipal Income Taxes
Other Local Taxes
Payment in Lieu of Taxes
Grants and Entitlements not Restricted to Specific Programs
Franchise Fees
Interest
Other

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS

**Net (Expense) Revenue
and Change in Net Assets**

Governmental Activities	Business-Type Activities	Total
(\$1,511,120)		(\$1,511,120)
(185,279)		(185,279)
(159,940)		(159,940)
(37,858)		(37,858)
(5,487)		(5,487)
(334,903)		(334,903)
(1,189,415)		(1,189,415)
(18,653)		(18,653)
<u>(3,442,655)</u>		<u>(3,442,655)</u>
	\$961,195	961,195
	3,608,452	3,608,452
	<u>4,569,647</u>	<u>4,569,647</u>
<u>(3,442,655)</u>	<u>4,569,647</u>	<u>1,126,992</u>
552,383		552,383
229,682		229,682
2,177,113		2,177,113
163,860		163,860
20,161		20,161
801,855		801,855
50,582		50,582
25,552		25,552
39,432	50,660	90,092
<u>4,060,620</u>	<u>50,660</u>	<u>4,111,280</u>
617,965	4,620,307	5,238,272
<u>11,772,677</u>	<u>12,937,702</u>	<u>24,710,379</u>
<u>\$12,390,642</u>	<u>\$17,558,009</u>	<u>\$29,948,651</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF ASSETS AND FUND BALANCES
GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$899,093	\$1,032,945	\$1,932,038
Accounts Receivable	59,444	250	59,694
Accrued Interest Receivable	3,957	795	4,752
Due from Other Governments	351,845	160,555	512,400
Municipal Income Taxes Receivable	700,198		700,198
Other Local Taxes Receivable	2,711	5,315	8,026
Interfund Receivable	19,521		19,521
Materials and Supplies Inventory	8,842	6,495	15,337
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	18,845		18,845
Property Taxes Receivable	590,100	248,238	838,338
Notes Receivable		749,789	749,789
Special Assessments Receivable		206,330	206,330
Payment in Lieu of Taxes Receivable		12,729	12,729
Total Assets	<u>\$2,654,556</u>	<u>\$2,423,441</u>	<u>\$5,077,997</u>
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accrued Wages Payable	\$62,302	\$8,490	\$70,792
Accounts Payable	13,866	15,143	29,009
Contracts Payable		8,720	8,720
Due to Other Governments	114,888	27,733	142,621
Interfund Payable		19,521	19,521
Deferred Revenue	1,181,307	606,923	1,788,230
Total Liabilities	<u>1,372,363</u>	<u>686,530</u>	<u>2,058,893</u>
<u>Fund Balance</u>			
Nonspendable	42,729	6,495	49,224
Restricted		1,725,237	1,725,237
Assigned	26,602	5,179	31,781
Unassigned	1,212,862		1,212,862
Total Fund Balance	<u>1,282,193</u>	<u>1,736,911</u>	<u>3,019,104</u>
Total Liabilities and Fund Balance	<u>\$2,654,556</u>	<u>\$2,423,441</u>	<u>\$5,077,997</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
DECEMBER 31, 2011

Total Governmental Fund Balance \$3,019,104

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. 8,815,148

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

Accounts Receivable	7,754	
Accrued Interest Receivable	3,613	
Due from Other Governments	368,356	
Municipal Income Taxes Receivable	350,676	
Other Local Taxes Receivable	434	
Property Taxes Receivable	46,662	
Special Assessments Receivable	206,330	
		983,825

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

Accrued Interest Payable	(757)	
General Obligations Bonds Payable	(178,269)	
Special Assessment Bonds Payable	(34,731)	
Capital Leases Payable	(90,526)	
Compensated Absences Payable	(123,152)	
		(427,435)

Net Assets of Governmental Activities \$12,390,642

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Property Taxes	\$550,918	\$227,711	\$778,629
Municipal Income Taxes	2,203,726		2,203,726
Other Local Taxes	163,797	71,423	235,220
Payment in Lieu of Taxes		20,161	20,161
Special Assessments		14,204	14,204
Charges for Services	264,473	135,414	399,887
Fees, Licenses, and Permits	107,350		107,350
Fines and Forfeitures	6,710	3,682	10,392
Intergovernmental	794,436	670,511	1,464,947
Interest	13,889	16,236	30,125
Other	28,207	13,651	41,858
Total Revenues	4,133,506	1,172,993	5,306,499
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Police	1,751,926	27,371	1,779,297
Fire		278,380	278,380
Public Health	192,033		192,033
Leisure Time Activities	54,763		54,763
Community Environment	10,648	152,636	163,284
Transportation		642,379	642,379
General Government	1,363,370		1,363,370
Capital Outlay		456,751	456,751
Debt Service:			
Principal Retirement	4,423	72,639	77,062
Interest and Fiscal Charges	1,101	17,645	18,746
Total Expenditures	3,378,264	1,647,801	5,026,065
Excess of Revenues Over (Under) Expenditures	755,242	(474,808)	280,434
<u>Other Financing Sources (Uses)</u>			
Sale of Capital Assets	1,755	6,900	8,655
Transfers In		400,242	400,242
Transfers Out	(400,242)		(400,242)
Total Other Financing Sources (Uses)	(398,487)	407,142	8,655
Change in Fund Balance	356,755	(67,666)	289,089
Fund Balance Beginning of Year	925,438	1,804,577	2,730,015
Fund Balance End of Year	\$1,282,193	\$1,736,911	\$3,019,104

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Change in Fund Balance - Total Governmental Funds \$289,089

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

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

Capital Outlay- Nondepreciable Capital Assets	433,369	
Capital Outlay- Depreciable Capital Assets	294,265	
Capital Contributions	287,424	
Depreciation	<u>(455,396)</u>	
		559,662

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 account on the statement of net assets and is offset against the proceeds from the sale of capital assets resulting in a loss on disposal of capital assets on the statement of activities.

Proceeds from the Sale of Capital Assets	(8,655)	
Loss on Disposal of Capital Assets	<u>(348,315)</u>	
		(356,970)

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

Property Taxes	3,436	
Municipal Income Taxes	(26,613)	
Other Local Taxes	63	
Special Assessments	(14,204)	
Charges for Services	(5,061)	
Fees, Licenses, and Permits	(50,818)	
Intergovernmental	11,564	
Interest	<u>243</u>	
		(81,390)

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

General Obligation Bonds Payable	9,423	
Special Assessment Bonds Payable	10,577	
Capital Leases Payable	<u>57,062</u>	
		77,062

The transfer of a capital lease from governmental activities to the business-type activities is not reflected in the governmental funds but the transfer reduces long-term liabilities on the statement of net assets.

99,894

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

93

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.

30,525

Change in Net Assets of Governmental Activities \$617,965

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET (NON-GAAP BUDGETARY BASIS) AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>Revenues</u>				
Property Taxes	\$529,580	\$564,550	\$550,918	(\$13,632)
Municipal Income Taxes	2,080,800	2,080,800	2,166,077	85,277
Other Local Taxes	151,003	149,000	163,544	14,544
Charges for Services	296,255	294,760	266,088	(28,672)
Fees, Licenses, and Permits	52,268	52,217	56,768	4,551
Fines and Forfeitures	10,540	10,500	6,557	(3,943)
Intergovernmental	420,681	415,100	735,132	320,032
Interest	14,290	14,100	19,684	5,584
Other	61,972	60,800	27,724	(33,076)
Total Revenues	3,617,389	3,641,827	3,992,492	350,665
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	2,031,750	2,031,750	1,751,301	280,449
Public Health	215,920	215,920	192,936	22,984
Leisure Time Activities	72,280	72,280	55,117	17,163
Community Environment	15,414	15,414	10,648	4,766
General Government	1,590,067	1,590,067	1,395,840	194,227
Debt Service:				
Principal Retirement	4,423	4,423	4,423	
Interest and Fiscal Charges	1,101	1,101	1,101	
Total Expenditures	3,930,955	3,930,955	3,411,366	519,589
Excess of Revenues Over (Under) Expenditures	(313,566)	(289,128)	581,126	870,254
<u>Other Financing Sources (Uses)</u>				
Sale of Capital Assets	1,000	1,000	1,755	755
Advances In			12,008	12,008
Transfers In		29,200		(29,200)
Transfers Out	(375,803)	(400,242)	(400,242)	
Total Other Financing Sources (Uses)	(374,803)	(370,042)	(386,479)	(16,437)
Change in Fund Balance	(688,369)	(659,170)	194,647	853,817
Fund Balance Beginning of Year	640,301	640,301	640,301	
Prior Year Encumbrances Appropriated	63,259	63,259	63,259	
Fund Balance End of Year	\$15,191	\$44,390	\$898,207	\$853,817

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS
DECEMBER 31, 2011

	<u>Business-Type Activities</u>		<u>Total Enterprise Funds</u>
	<u>Water</u>	<u>Sewer</u>	
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$668,080	\$1,017,948	\$1,686,028
Accounts Receivable	1,067,368	315,420	1,382,788
Materials and Supplies Inventory	20,890	30,105	50,995
Total Current Assets	1,756,338	1,363,473	3,119,811
<u>Non-Current Assets</u>			
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	69,453		69,453
Nondepreciable Capital Assets	313,025	8,816,658	9,129,683
Depreciable Capital Assets, Net	2,855,309	17,287,608	20,142,917
Total Non-Current Assets	3,237,787	26,104,266	29,342,053
Total Assets	4,994,125	27,467,739	32,461,864
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	7,435	17,587	25,022
Accounts Payable	5,609	16,080	21,689
Contracts Payable	6,300	63,673	69,973
Due to Other Governments	71,497	30,967	102,464
Accrued Interest Payable		10,688	10,688
General Obligation Bonds Payable		150,000	150,000
OPWC Loans Payable	1,515	13,746	15,261
OWDA Loans Payable	59,491	229,666	289,157
Capital Leases Payable		40,352	40,352
Compensated Absences Payable	11,350	49,880	61,230
Total Current Liabilities	163,197	622,639	785,836
<u>Non-Current Liabilities</u>			
Deposits Held and Due to Others	69,453		69,453
General Obligation Bonds Payable		3,270,000	3,270,000
OPWC Loans Payable	18,274	157,858	176,132
OWDA Loans Payable	1,155,382	9,224,182	10,379,564
Capital Leases Payable		171,036	171,036
Compensated Absences Payable	32,765	19,069	51,834
Total Non-Current Liabilities	1,275,874	12,842,145	14,118,019
Total Liabilities	1,439,071	13,464,784	14,903,855
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	1,933,672	12,847,426	14,781,098
Unrestricted	1,621,382	1,155,529	2,776,911
Total Net Assets	\$3,555,054	\$14,002,955	\$17,558,009

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF REVENUES, EXPENSES,
AND CHANGE IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Business-Type Activities</u>		<u>Total Enterprise Funds</u>
	<u>Water</u>	<u>Sewer</u>	
<u>Operating Revenues</u>			
Charges for Services	\$2,509,770	\$2,664,030	\$5,173,800
Other	36,131	14,529	50,660
Total Operating Revenues	<u>2,545,901</u>	<u>2,678,559</u>	<u>5,224,460</u>
<u>Operating Expenses</u>			
Personal Services	430,031	782,011	1,212,042
Contractual Services	7,553	117,839	125,392
Materials and Supplies	932,280	570,708	1,502,988
Other	68,000	105,000	173,000
Depreciation	68,986	287,806	356,792
Total Operating Expenses	<u>1,506,850</u>	<u>1,863,364</u>	<u>3,370,214</u>
Operating Income	1,039,051	815,195	1,854,246
<u>Non-Operating Revenues (Expenses)</u>			
Grants	15,000		15,000
Interest Expense	(56,725)	(340,632)	(397,357)
Income before Capital Contributions and Transfers	997,326	474,563	1,471,889
Capital Contributions		3,148,418	3,148,418
Transfers In	49,947	51,134	101,081
Transfers Out	(51,134)	(49,947)	(101,081)
Change in Net Assets	996,139	3,624,168	4,620,307
Net Assets Beginning of Year	<u>2,558,915</u>	<u>10,378,787</u>	<u>12,937,702</u>
Net Assets End of Year	<u><u>\$3,555,054</u></u>	<u><u>\$14,002,955</u></u>	<u><u>\$17,558,009</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	Business-Type Activities		
	Water	Sewer	Total Enterprise Funds
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$1,694,307	\$2,801,002	\$4,495,309
Cash Received from Other Revenues	36,131	14,529	50,660
Cash Payments for Personal Services	(413,806)	(786,819)	(1,200,625)
Cash Payments for Contractual Services	(7,411)	(164,373)	(171,784)
Cash Payments to Vendors	(850,014)	(623,069)	(1,473,083)
Cash Payments for Other Expenses	(68,000)	(105,000)	(173,000)
Net Cash Provided by Operating Activities	<u>391,207</u>	<u>1,136,270</u>	<u>1,527,477</u>
<u>Cash Flows from Noncapital Financing Activities</u>			
Grants	15,000		15,000
Advances Out		(2,248)	(2,248)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>15,000</u>	<u>(2,248)</u>	<u>12,752</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on General Obligation Bonds		(145,000)	(145,000)
Principal Paid on OPWC Loans	(1,514)	(13,745)	(15,259)
Principal Paid on OWDA Loans	(89,058)	(397,048)	(486,106)
Lease Principal		(38,347)	(38,347)
Interest Paid on General Obligation Bonds		(146,497)	(146,497)
Interest Paid on OWDA Loans	(56,725)	(182,506)	(239,231)
Lease Interest		(12,082)	(12,082)
OWDA Loans Issued	411,553	2,437,104	2,848,657
Acquisition of Capital Assets	(455,143)	(2,354,980)	(2,810,123)
Net Cash Used for Capital and Related Financing Activities	<u>(190,887)</u>	<u>(853,101)</u>	<u>(1,043,988)</u>
Net Increase in Cash and Cash Equivalents	215,320	280,921	496,241
Cash and Cash Equivalents Beginning of Year	<u>522,213</u>	<u>737,027</u>	<u>1,259,240</u>
Cash and Cash Equivalents End of Year	<u>\$737,533</u>	<u>\$1,017,948</u>	<u>\$1,755,481</u>

(continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)

	Business-Type Activities		
	Water	Sewer	Total Enterprise Funds
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>			
Operating Income	\$1,039,051	\$815,195	\$1,854,246
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>			
Depreciation	68,986	287,806	356,792
Provision for Uncollectible Accounts	(4,807)	(8,545)	(13,352)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	(810,656)	145,517	(665,139)
(Increase) Decrease in Materials and Supplies Inventory	12,117	(478)	11,639
Increase (Decrease) in Accrued Wages Payable	177	(598)	(421)
Increase (Decrease) in Accounts Payable	4,040	(29,999)	(25,959)
Increase (Decrease) in Contracts Payable	6,300	(68,418)	(62,118)
Increase (Decrease) in Due to Other Governments	53,853	(477)	53,376
Increase (Decrease) in Compensated Absences Payable	18,926	(3,733)	15,193
Increase in Deposits Held and Due to Others	3,220		3,220
Net Cash Provided by Operating Activities	\$391,207	\$1,136,270	\$1,527,477

Non-Cash Capital Transactions

During 2011, the Water enterprise fund received capital assets from other governmental funds, in the amount of \$20,939.

During 2011, the Sewer enterprise fund received capital assets, in the amount of \$3,148,418, from Ottawa County. The Sewer enterprise fund also received capital assets from other governmental funds, in the amount of \$165,025 with depreciation of \$62,759.

During 2011, other governmental funds transferred a lease for equipment to the Sewer enterprise fund, in the amount of \$99,894.

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**CITY OF PORT CLINTON
OTTAWA COUNTY**

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
DECEMBER 31, 2011

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$32,224</u></u>
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Liabilities

Undistributed Assets	<u><u>\$32,224</u></u>
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SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

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**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

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, a volunteer fire department, 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 2011.

The City participates in an insurance pool, the Ohio Government Risk Management Plan, which is presented in Note 21 to the basic financial statements.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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 enterprise 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 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 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. Fiduciary funds are reported by type.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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 General Fund is the City's only major fund.

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.

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

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, change in net assets, financial position, and cash flow.

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.

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 2011. 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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 enterprise 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 enterprise 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.

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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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, 2011, but were levied to finance 2012 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.

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, both 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, and object level for the General Fund and some other funds and at the fund level for other funds.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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 final amended certificate of estimated resources requested by the City prior to year end.

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".

During 2011, the City's investments included nonnegotiable certificates of deposit, federal agency securities, U.S. treasury securities, and mutual funds. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on current share price or quoted market price.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2011 was \$13,889, which includes \$10,346 assigned from other City funds.

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

G. Inventory

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

H. 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, 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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

I. 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.

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

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

J. 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.

K. 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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

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

L. 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 enterprise funds are reported on the enterprise 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.

M. 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 generally consist 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.

N. Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds. The classifications are as follows:

Nonspendable - The nonspendable classification includes amounts that cannot be spent because they are not in spendable form or legally or contractually required to be maintained intact. The "not in spendable form" includes items that are not expected to be converted to cash. It also includes the long-term portion of interfund receivable.

Restricted - The restricted classification includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or law or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City ordinance).

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means that the City can be compelled by an external party such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for purposes specified by the legislation.

Committed - The committed classification includes amounts that can be used only for the specific purposes determined by a formal action (ordinance or resolution) of City Council. The committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, committed fund balance may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or by a City official delegated that authority by ordinance.

Unassigned - Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The City first applies restricted resources when an expenditure is incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications can be used.

O. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise funds. For the City, these revenues are charges for services for water and sewer services. 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.

P. Capital Contributions

Capital contributions arise from contributions from other governments and other funds of the City.

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.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Internal allocations of overhead expenses from one function to another or within the same function are eliminated on the statement of activities. Payments for interfund services provided and used are not eliminated.

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 the enterprise 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 – COMPLIANCE

The following accounts had expenditures in excess of appropriations for the year ended December 31, 2011.

Fund/Department/Object	Appropriations	Expenditures	Excess
Governmental Activities			
General Fund			
Administration			
Personal Services	\$117,070	\$118,239	\$1,169
Income Tax			
Personal Services	134,255	136,574	2,319
Safety Service			
Personal Services	157,390	158,046	656
Cemetery			
Personal Services	153,970	154,744	774
Harbor Patrol Grant Special Revenue			
Harbor Patrol			
Personal Services	15,500	15,817	317
Community Development Block Grant Special Revenue			
Low and Moderate Income Housing			
Other Services		5,525	5,525

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 3 – COMPLIANCE – (Continued)

The Auditor will monitor expenditures to ensure they are within amounts appropriated.

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes 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 restricted, committed, or assigned fund balance (GAAP basis).

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

Change in Fund Balance

GAAP Basis	\$356,755
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2010, Received in Cash 2011	375,551
Accrued 2011, Not Yet Received in Cash	(527,202)
Expenditure Accruals:	
Accrued 2010, Paid in Cash 2011	(201,339)
Accrued 2011, Not Yet Paid in Cash	191,310
Cash Adjustments:	
Unrecorded Activity 2010	8,784
Unrecorded Activity 2011	1,853

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING – (Continued)

Change in Fund Balance (Continued)	
Materials and Supplies Inventory	(1,489)
Advances In	12,008
Encumbrances Outstanding at Year End (Budget Basis)	<u>(21,584)</u>
Budget Basis	<u>\$194,647</u>

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
4. Bonds and other obligations of the State of Ohio;

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 5 - DEPOSITS AND INVESTMENTS - (Continued)

5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2);
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

Investments

As of December 31, 2011, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Farm Credit Bank Notes	\$150,271	7/10/12
Federal Home Loan Bank Notes	150,668	8/22/12
Federal Home Loan Bank Notes	100,913	3/27/13
U.S. Treasury Notes	150,047	1/15/12
U.S. Treasury Notes	140,175	2/29/12
Mutual Funds	39,472	45 days
Total Investments	<u>\$731,546</u>	

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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.

The federal agency securities and mutual funds carry a rating of AAA by Moodys. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires mutual funds be rated in the highest category at the time of purchase 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:

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Federal Farm Credit Bank	\$150,271	20.5%
Federal Home Loan Bank	251,581	34.4
U.S. Treasury	290,222	39.7

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - RECEIVABLES

Receivables at December 31, 2011, 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; special assessments; and payment in lieu of taxes. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$736,103, will not be received within one year. Special assessments receivable, in the amount of \$182,882, will not be received within one year. At December 31, 2011, the amount of delinquent special assessments was \$108,012.

A summary of the changes in notes receivable during 2011 follows:

	Balance December 31, 2010	New Loans	Repayments	Balance December 31, 2011
Special Revenue Fund				
CDBG	\$106,467			\$106,467
HPG	283,754			283,754
HOME	346,157	\$70,417	\$57,006	359,568
	\$736,378	\$70,417	\$57,006	\$749,789

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$1,081,893	\$341,242	\$1,423,135
Less Allowance for Uncollectibles	14,525	25,822	40,347
Net Accounts Receivable	\$1,067,368	\$315,420	\$1,382,788

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 6 - RECEIVABLES - (Continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Homestead and Rollback	\$34,508
Estate Tax	127,673
Local Government	178,752
Beer and Liquor Permits	10,912
Total General Fund	351,845
Nonmajor Funds	
Fire Levy	
Homestead and Rollback	13,996
State Highway	
Gasoline Tax	8,454
Motor Vehicle License Tax	2,539
Total State Highway	10,993
Street Maintenance	
Gasoline Tax	104,260
Motor Vehicle License Tax	31,306
Total Street Maintenance	135,566
Total Nonmajor Funds	160,555
Total Governmental Activities	\$512,400

NOTE 7 - MUNICIPAL INCOME TAXES

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

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2011 represent the collection of 2010 taxes. Real property taxes received in 2011 were levied after October 1, 2010, on the assessed values as of January 1, 2010, 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 2011 represent the collection of 2010 taxes. Public utility real and tangible personal property taxes received in 2011 became a lien on December 31, 2009, were levied after October 1, 2010, 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.

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 and public utility property taxes which were measurable as of December 31, 2011, 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 2011 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the 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, 2011, was \$6.10 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2011 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Agricultural/Residential	\$105,619,000
Commercial/Industrial	32,817,760
Public Utility Real	30,240
Public Utility Personal	6,704,050
Total	<u>\$145,171,050</u>

NOTE 9 - PAYMENT IN LIEU OF TAXES

According to State law, the City has entered into an agreement with a property owner under which the City has granted property tax exemptions to that property owner. The property owner has agreed to make payments to the City which reflect all or a portion of the property taxes which they would have paid if the taxes had not been exempted. The property owner contractually promises to make these payments in lieu of taxes until agreement expires.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2011, was as follows:

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,981,500	\$16,000		\$1,997,500
Construction in Progress		417,369		417,369
Total Nondepreciable Capital Assets	1,981,500	433,369		2,414,869
Depreciable Capital Assets				
Land Improvements	232,038			232,038
Buildings and Improvements	1,901,676			1,901,676
Furniture, Fixtures, and Equipment	1,222,244	212,858	\$(267,124)	1,167,978
Vehicles	1,962,660	368,831	(200,259)	2,131,232
Streets	9,829,328			9,829,328
Total Depreciable Capital Assets	15,147,946	581,689	(467,383)	15,262,252
Less Accumulated Depreciation for				
Land Improvements	(59,385)	(11,602)		(70,987)
Buildings and Improvements	(519,484)	(42,429)		(561,913)
Furniture, Fixtures, and Equipment	(774,881)	(47,298)	91,399	(730,780)
Vehicles	(1,331,326)	(84,510)	19,014	(1,396,822)
Streets	(5,831,914)	(269,557)		(6,101,471)
Total Accumulated Depreciation	(8,516,990)	(455,396)	110,413	(8,861,973)
Total Depreciable Capital Assets, Net	6,630,956	126,293	(356,970)	6,400,279
Governmental Activities Capital Assets, Net	\$8,612,456	\$559,662	(\$356,970)	\$8,815,148

Governmental activities accepted contributions of capital assets from outside sources, with a fair value of \$287,424 during 2011.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 10 - CAPITAL ASSETS - (Continued)

	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552			\$12,552
Construction in Progress	11,111,334	\$2,831,651	\$(4,825,854)	9,117,131
Total Nondepreciable Capital Assets	11,123,886	2,831,651	(4,825,854)	9,129,683
Depreciable Capital Assets				
Land Improvements	13,965			13,965
Buildings and Improvements	11,722,197	83,521	(213,900)	11,591,818
Furniture, Fixtures, and Equipment	734,624	39,773	(27,400)	746,997
Vehicles	284,953	185,964		470,917
Water, Sewer, and Storm Sewer Lines	3,877,022	7,890,751		11,767,773
Total Depreciable Capital Assets	16,632,761	8,200,009	(241,300)	24,591,470
Less Accumulated Depreciation for				
Land Improvements	(7,331)	(698)		(8,029)
Buildings and Improvements	(3,026,213)	(207,673)	213,900	(3,019,986)
Furniture, Fixtures, and Equipment	(350,484)	(48,143)	27,400	(371,227)
Vehicles	(102,546)	(106,432)		(208,978)
Water, Sewer, and Storm Sewer Lines	(762,789)	(77,544)		(840,333)
Total Accumulated Depreciation	(4,249,363)	(440,490)	241,300	(4,448,553)
Total Depreciable Capital Assets, Net	12,383,398	7,759,519		20,142,917
Business-Type Activities Capital Assets, Net	<u>\$23,507,284</u>	<u>\$10,591,170</u>	<u>\$(4,825,854)</u>	<u>\$29,272,600</u>

Business-type activities accepted contributions of depreciable capital assets from outside sources, with a fair value of \$3,148,418 during 2011. Business-type activities also accepted contributions of capital assets from governmental activities, in the amount of \$185,964, with accumulated depreciation of \$83,698.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$73,653
Security of Persons and Property – Fire	55,924
Leisure Time Activities	14,034
Transportation	303,011
General Government	8,774
Total Depreciation Expense - Governmental Activities	<u>\$455,396</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2011, the General Fund had an interfund receivable, in the amount of \$19,521, from other governmental funds for short-term loans made to those funds. Of this amount, \$15,042 is not scheduled to be collected within one year.

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 2011, 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	\$20,788,881	\$1,000
Special Property	2,056,767	1,000
General Liability		
Occurrence	2,000,000	
Aggregate	4,000,000	
Employer's Liability		
Occurrence	2,000,000	
Aggregate	2,000,000	
Employee Benefits		
Occurrence	2,000,000	
Aggregate	4,000,000	
Public Officials Liability		
Occurrence	2,000,000	2,500
Aggregate	4,000,000	2,500
Law Enforcement Liability		
Occurrence	2,000,000	2,500
Aggregate	4,000,000	2,500
Auto Liability	2,000,000	250/500
Builders Risk	500,000	

There has been no significant reduction in insurance coverage from 2010, and no insurance settlement has exceeded insurance coverage during the last three years.

Worker's compensation is provided by the State of Ohio. The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. The rate is calculated based on accident history and administrative costs.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2011, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
Arcadis	Second Street Sewer Separation	\$8,047
A.T. Emmett	New Panel/Control Pumps	10,732
B.E.C Associates	Fulton Street Reconstruction	4,180
Bauman Enterprises	Demolition of Waterworks Building	32,932
Buckeye Excavating	Fulton Street Reconstruction	6,028
Industrial Pump	Rebuild/Repair Influent Pump	32,853
Poggemeyer Design Group	Sixth Street Engineering Services	28,576
TTL Associates	Second Street Sewer Paving Testing	2,719

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

Plan Description - 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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which 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 stand-alone financial report that may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2011, members in state and local classifications contributed 10 percent of covered payroll. For 2011, member and employer contribution rates were consistent across all three plans.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 14 - DEFINED BENEFIT PENSION PLANS - (Continued)

The City's 2011 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2011. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2011, 2010, and 2009 was \$223,310, \$175,878, and \$110,654, respectively. For 2011, 87 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009. Contributions to the member-directed plan for 2011 were \$3,948 made by the City and \$2,820 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2011, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers. The City's required contribution for pension obligations for police for the year ended December 31, 2011, was \$92,491, for the year ended December 31, 2010, was \$97,375, and for the year ended December 31, 2009, was \$82,975. For 2011, 66 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

Plan Description - The Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: the traditional plan, a cost-sharing, multiple-employer defined benefit pension plan; the member-directed plan, a defined contribution plan; and the combined plan, a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing, multiple-employer defined benefit postemployment health care plan for qualifying members of both the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits, including postemployment health care coverage. The plan includes a medical plan, a prescription drug program, and Medicare Part B premium reimbursement.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

In order to qualify for postemployment health care coverage, age and service retirees under the traditional and combined plans must have ten or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The postemployment health care plan was established under, and is administered in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2011, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2011. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2011.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits provided by the retiree or the retiree's surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the postemployment health care plan.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2011, 2010, and 2009 was \$90,903, \$109,695, and \$94,755, respectively. For 2011, 87 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

The Health Care Preservation Plan (HCPP) adopted by the OPERS retirement board on September 9, 2004, was effective January 1, 2007. Member and employer contributions rates increased on January 1 of each year from 2006 to 2008. Rates for public safety and law enforcement employers increased over a six year period beginning on January 1, 2006, with a final rate increase on January 1, 2011. These rate increases allowed additional funds to be allocated to the health care plan.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 15 - POSTEMPLOYMENT BENEFITS - (Continued)

B. Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF) sponsored healthcare program, a cost-sharing, multiple-employer defined postemployment healthcare plan administered by OPF. OPF provides healthcare benefits including coverage for medical, prescription drug, dental, vision, Medicare Part B Premium, and long-term care to retirees, qualifying benefit recipients, and their eligible dependents.

OPF provides access to postretirement healthcare coverage for 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. The healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

The Ohio Revised Code allows, but does not mandate, OPF to provide OPEB benefits. Authority for the OPF Board of Trustees to provide healthcare coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy - The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OPF defined benefit pension plan. Participating employers are required by the Ohio Revised Code to contribute to the pension plan at rates expressed as a percentage of payroll of active pension plan members, currently 19.5 percent of covered payroll for police. Active members do not make contributions to the OPEB Plan.

OPF maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B premium reimbursements administered as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2011, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contribution allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OPF Board of Trustees is also authorized to establish requirements for contributions to the healthcare plan by retirees and their eligible dependents or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police for the year ended December 31, 2011, was \$48,966, for the year ended December 31, 2010, was \$51,551, and for the year ended December 31, 2009, was \$43,928. For 2011, 66 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2010 and 2009.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

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 in the Teamsters, Exempt, or Nonexempt Unions with ten or more years of service, or an employee with twenty or more years of service, who leave the employment of the City for reasons other than termination of employment by the City, with accumulated sick leave of seven hundred hours, or employees who retire from the City, are entitled to receive half of the value of their unused sick leave up to a maximum of seven hundred fifty hours. Full-time employees with ten or more years of service, or an employee with twenty or more years of service, who leave the employment of the City for reasons other than termination of employment by the City, or employees who retire from the City, are entitled to receive one-fourth of the value of their accumulated unused sick leave up to a maximum of one hundred seventy-five hours to seven hundred fifty hours for employees who retire under a collective bargaining agreement or five hundred hours for all other employees.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2011, was as follows:

	Interest Rate	Balance December 31, 2010	Additions	Reductions	Balance December 31, 2011	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%	\$17,692		\$4,423	\$13,269	\$4,423
2008 Various Purpose (Original Amount \$3,990,000)	3.750	170,000		5,000	165,000	5,000
Total General Obligation Bonds		187,692		9,423	178,269	9,423
<u>Special Assessment Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	30,308		7,577	22,731	7,577
1995 Fulton Street (Original Amount \$48,530)	6.5	15,000		3,000	12,000	3,000
Total Special Assessment Bonds		45,308		10,577	34,731	10,577
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		247,482		156,956	90,526	59,673
Compensated Absences Payable		153,677	\$12,585	43,110	123,152	51,451
Total Other Long-Term Obligations		401,159	12,585	200,066	213,678	111,124
Total Governmental Activities		\$634,159	\$12,585	\$220,066	\$426,678	\$131,124

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS - (Continued)

	Interest Rate	Balance December 31, 2010	Additions	Reduction s	Balance December 31, 2011	Due Within One Year
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
2008 General Obligation Bonds (Original Amount \$3,990,000)	3.75%	\$3,565,000		\$145,000	\$3,420,000	\$150,000
<u>OPWC Loans</u>						
2002 OPWC Loans Payable (Original Amount \$28,000)		16,100		1,400	14,700	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)		140,636		10,417	130,219	10,418
2004 OPWC Loans Payable (Original Amount \$40,934)		49,916		3,442	46,474	3,443
Total OPWC Loans		206,652		15,259	191,393	15,261
<u>OWDA Loans</u>						
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54%	\$590,982		\$56,367	\$534,615	\$59,491
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	3,817,402		220,986	3,596,416	229,666
2008 OWDA Loans Payable (Original Amount \$1,779,307)	1.00	2,544,427		130,891	2,413,536	
2010 OWDA Loans Payable (Original Amount \$427,602)	3.39	301,396	\$116,871	19,147	399,120	
2010 OWDA Loans Payable (Original Amount \$3,880,427)	1.00	1,051,963	786,079	45,171	1,792,871	
2011 OWDA Loans Payable (Original Amount \$1,651,025)	1.00		1,651,025		1,651,025	
2011 OWDA Loans Payable (Original Amount \$294,682)	3.99		294,682	13,544	281,138	
Total OWDA Loans		8,306,170	2,848,657	486,106	10,668,721	289,157
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		149,841	99,894	38,347	211,388	40,352
Compensated Absences Payable		97,871	40,349	25,156	113,064	61,230
Total Other Long-Term Obligations		247,712	140,243	63,503	324,452	101,582
Total Business-Type Activities		\$12,325,534	\$2,988,900	\$709,868	\$14,604,566	\$556,000

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS - (Continued)

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton and are payable from unvoted property tax revenues to the extent that other resources are not available to meet annual principal and interest payments. The bonds will be paid from the General Fund, the Second and Laurel capital projects fund, and the Water and Sewer enterprise funds.

The bonds maturing on or after December 1, 2016, are subject to prior redemption, by and at the sole option of the City, either in whole or in part, and in integral multiples of \$5,000, on any date on or after June 1, 2015, at par plus accrued interest to the redemption date.

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, the Street Maintenance and Fire Levy special revenue funds, and the Water and Sewer enterprise funds.

OPWC Loans Payable

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

OWDA Loans Payable

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water tower, wastewater treatment plant improvements, waterline replacements, Third Street Sewer separation, Second Street Sewer, and Second Street water main replacement. The loans will be paid from resources of the Water and Sewer enterprise funds.

The OPWC and OWDA loans will be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans, for which amortization schedules are available, are \$191,393 and \$5,249,550, respectively. Principal and interest paid for the current year and net revenues were \$147,297 and \$1,108,037 for the Water enterprise fund and \$593,299 and \$1,100,629 for the Sewer enterprise fund.

The City's legal debt margin was \$15,069,736 at December 31, 2011.

The wastewater treatment plant improvements, waterline replacements, Third Street Sewer separation, Second Street Sewer, and Second Street water main replacement funded by OWDA loans have not been completed. An amortization schedule for the repayment of the loans will not be available until the projects are completed and, therefore, are not included in the following schedule.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 17 - LONG-TERM OBLIGATIONS - (Continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2011, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2012	\$9,423	\$7,639	\$10,577	\$2,186
2013	9,423	7,176	10,577	1,522
2014	9,423	6,713	10,577	859
2015	10,000	6,250	3,000	195
2016	10,000	5,875		
2017-2021	50,000	23,500		
2022-2026	50,000	13,270		
2027-2028	30,000	2,024		
Total	<u>\$178,269</u>	<u>\$72,447</u>	<u>\$34,731</u>	<u>\$4,762</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2011, from the business-type activities were as follows:

Year	General Obligation Bonds		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2012	\$150,000	\$141,060	\$15,261	\$289,157	\$168,116
2013	155,000	135,435	15,260	301,472	155,800
2014	160,000	129,622	15,260	314,328	142,947
2015	160,000	123,622	15,260	327,743	129,532
2016	165,000	117,622	15,260	341,743	115,531
2017-2021	935,000	485,776	76,300	1,708,363	355,234
2022-2026	1,160,000	276,860	38,792	848,225	51,359
2027-2028	535,000	36,450			
Total	<u>\$3,420,000</u>	<u>\$1,446,447</u>	<u>\$191,393</u>	<u>\$4,131,031</u>	<u>\$1,118,519</u>

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for 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. During 2011, the Sewer enterprise fund received a leased capital asset from the Street Construction special revenue fund. The amount owed on the lease when transferred was \$99,894. Principal payments in 2011 were \$57,062 for governmental funds and \$38,347 for enterprise funds.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE -(Continued)

	Governmental Activities	Business-Type Activities
Vehicles	\$375,000	\$295,000
Less Accumulated Depreciation	(125,000)	(59,001)
Total	\$250,000	\$235,999

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, 2011.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2012	\$59,673	\$3,429	\$40,352	\$10,076
2013	30,853	698	42,462	7,968
2014			44,682	5,745
2015			47,020	3,408
2016			36,872	949
Total	\$90,526	\$4,127	\$211,388	\$28,146

NOTE 19 - FUND BALANCE

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in governmental funds.

The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Debt Retirement	\$15,042		\$15,042
Materials and Supplies Inventory	8,842	\$6,495	15,337
Unclaimed Monies	18,845		18,845
Total Nonspendable	42,729	6,495	49,224

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 19 - FUND BALANCE - (Continued)

Fund Balance	General	Other Governmental	Total Governmental Funds
Restricted for:			
Cemetery Maintenance		\$56,733	\$56,733
Debt Retirement		35,601	35,601
Economic Development		861,474	861,474
Fire Department Operations		385,614	385,614
Police Department Operations		50,180	50,180
Permanent Improvements		146,381	146,381
Marine Maintenance and Operations		4,540	4,540
Street Construction and Maintenance		184,714	184,714
Total Restricted		<u>1,725,237</u>	<u>1,725,237</u>
Assigned for:			
Debt Retirement		5,045	5,045
Permanent Improvements		134	134
Street Construction and Maintenance	\$5,018		5,018
Unpaid Obligations	21,584		21,584
Total Assigned	<u>26,602</u>	<u>5,179</u>	<u>31,781</u>
Unassigned	<u>1,212,862</u>		<u>1,212,862</u>
Total Fund Balance	<u>\$1,282,193</u>	<u>\$1,736,911</u>	<u>\$3,019,104</u>

NOTE 20 - INTERFUND TRANSFERS

During 2011, the General Fund made transfers to other governmental funds, in the amount of \$400,242, to subsidize activities of the various funds.

The Water Fund transferred capital assets to the Sewer Fund, in the amount of \$51,134.

The Sewer Fund made transfers to the Water Fund, in the amount of \$49,947, to return costs paid on its behalf in prior years.

**CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011
(Continued)**

NOTE 21 - INSURANCE POOL

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.

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2011, to December 31, 2011, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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Dave Yost • Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 7, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of opining on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in more than a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and timely corrected.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above.

Compliance and Other Matters

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

One Government Center, Suite 1420, Toledo, Ohio 43604-2246
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

www.ohioauditor.gov

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated December 7, 2012.

We intend this report solely for the information and use of management, the audit committee, City Council, and others within the City. We intend it for no one other than these specified parties.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

Dave Yost
Auditor of State

December 7, 2012

CITY OF PORT CLINTON
OTTAWA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2011

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2010-001	Failure to properly record on-behalf grant activity.	Yes	

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CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 20, 2012