



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

**CITY OF PORT CLINTON
OTTAWA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Report of Independent Accountants	1
Combined Balance Sheet – All Fund Types and Account Groups	4
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental and Similar Fiduciary Fund Types	8
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual Comparison – All Governmental and Similar Fund Types	10
Combined Statement of Revenues, Expenses, and Changes in Fund Equity – All Proprietary Fund Types	14
Combined Statement of Revenues, Expenses, and Changes in Fund Balances – Budget (Non-GAAP Budgetary Basis) and Actual Comparison – All Enterprise Funds	15
Combined Statement of Cash Flows - All Proprietary Fund Types	16
Notes to the General-Purpose Financial Statements	19
Report of Independent Accountants on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	47

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REPORT OF INDEPENDENT ACCOUNTANTS

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

We have audited the accompanying general-purpose financial statements of the City of Port Clinton (the City) as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material aspects, the financial position of the City of Port Clinton, Ottawa County, as of December 31, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 27, 2002, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in black ink, appearing to read "Jim Petro".

Jim Petro
Auditor of State

August 27, 2002

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$155,844	\$636,166	\$50,132	\$426,592
Cash and Cash Equivalents with Fiscal Agents			1,325	
Receivables:				
Property Taxes	445,602			
Municipal Income Taxes	550,437			
Other Local Taxes	3,431			
Special Assessments			398,932	
Accounts (net, where applicable, of allowance for uncollectibles)	91,669			
Interfund	25,000			
Notes		327,905		
Due from Other Funds	80,000			
Due from Other Governments	286,876	127,607		25,000
Materials and Supplies Inventory	13,590	13,602		
Prepaid Items	24,841	3,429		
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents				
Fixed Assets (net, where applicable, of accumulated depreciation)				
<u>Other Debits</u>				
Amount to be Provided from General Governmental Resources				
Amount to be Provided from Special Assessments				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds				
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds				
Total Assets and Other Debits	<u>\$1,677,290</u>	<u>\$1,108,709</u>	<u>\$450,389</u>	<u>\$451,592</u>

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$685,114		\$27,894			\$1,981,742
177	\$30,595				32,097
					445,602
					550,437
					3,431
					398,932
525,760					617,429
					25,000
					327,905
					80,000
20,530					439,483
5,764					47,722
					34,034
16,662					16,662
2,724,499			\$5,074,512		7,799,011
				\$1,645,747	1,645,747
				204,199	204,199
				5,045	5,045
				41,755	41,755
\$3,978,506	\$30,595	\$27,894	\$5,074,512	\$1,896,746	\$14,696,233

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Balance Sheet
All Fund Types and Account Groups
December 31, 2001
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities, Fund Equity, and Other Credits				
<u>Liabilities</u>				
Accounts Payable	\$16,935	\$8,462		\$1,236
Contracts Payable				
Retainage Payable				1,165
Accrued Wages Payable	58,411	14,475		
Compensated Absences Payable	2,428	731		
Interfund Payable				25,000
Due to Other Funds				
Due to Other Governments	18,049	2,851		
Deferred Revenue	1,029,046	104,320	\$398,932	25,000
Undistributed Assets				
Claims Payable				
Accrued Interest Payable				
Matured Interest Payable			2,896	
Payable from Restricted Assets:				
Deposits Held and Due to Others				
Capital Leases Payable				
OWDA Loan Payable				
General Obligation Bonds Payable				
General Obligation Revenue Bonds Payable				
Special Assessment Bonds Payable with Governmental Commitment				
Matured Special Assessment Bonds Payable with Governmental Commitment			1,761	
Total Liabilities	1,124,869	130,839	403,589	52,401
<u>Fund Equity and Other Credits</u>				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved (Deficit)				
Contributed Capital				
Fund Balance:				
Reserved:				
Reserved for Notes Receivable		327,905		
Reserved for Encumbrances	23,232	14,340		71,137
Unreserved	529,189	635,625	46,800	328,054
Total Fund Equity (Deficit) and Other Credits	552,421	977,870	46,800	399,191
Total Liabilities, Fund Equity, and Other Credits	\$1,677,290	\$1,108,709	\$450,389	\$451,592

See Accompanying Notes to the General-Purpose Financial Statements

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long-Term Obligations</u>	
\$17,315					\$43,948
73,099					73,099
					1,165
26,259					99,145
69,273				\$113,857	186,289
					25,000
80,000					80,000
27,996				77,484	126,380
					1,557,298
		\$16,411			16,411
	\$68,211				68,211
34,224					34,224
177					3,073
16,662					16,662
				105,528	105,528
990,770					990,770
				1,353,923	1,353,923
320,000					320,000
				245,954	245,954
					1,761
<u>1,655,775</u>	<u>68,211</u>	<u>16,411</u>		<u>1,896,746</u>	<u>5,348,841</u>
			\$5,074,512		5,074,512
2,015,147	(37,616)				1,977,531
307,584					307,584
					327,905
					108,709
		11,483			1,551,151
<u>2,322,731</u>	<u>(37,616)</u>	<u>11,483</u>	<u>5,074,512</u>		<u>9,347,392</u>
<u>\$3,978,506</u>	<u>\$30,595</u>	<u>\$27,894</u>	<u>\$5,074,512</u>	<u>\$1,896,746</u>	<u>\$14,696,233</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
All Governmental and Similar Fiduciary Fund Types
For the Year Ended December 31, 2001**

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
Revenues		
Property Taxes	\$424,499	
Municipal Income Taxes	1,969,773	
Other Local Taxes	136,910	\$20,324
Special Assessments		
Intergovernmental	561,169	340,643
Charges for Services	409,954	1,159
Fees, Licenses, and Permits	32,667	
Fines and Forfeitures	19,844	1,547
Interest	24,063	44,461
Miscellaneous	55,438	8,446
Total Revenues	<u>3,634,317</u>	<u>416,580</u>
Expenditures		
Current:		
Security of Persons and Property	1,399,986	81,589
Public Health	199,895	
Leisure Time Activities	226,170	
Community Environment	5,852	23,429
Transportation		560,315
General Government	854,441	
Other		
Capital Outlay		
Debt Service:		
Principal Retirement	4,055	
Interest and Fiscal Charges	3,657	
Total Expenditures	<u>2,694,056</u>	<u>665,333</u>
Excess of Revenues Over (Under) Expenditures	<u>940,261</u>	<u>(248,753)</u>
Other Financing Sources (Uses)		
Inception of Capital Lease		
Proceeds of Bonds	252,250	
Operating Transfers - In		257,871
Operating Transfers - Out	(1,163,791)	
Total Other Financing Sources (Uses)	<u>(911,541)</u>	<u>257,871</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	28,720	9,118
Fund Balances at Beginning of Year	514,916	977,537
Residual Equity Transfer	8,785	(8,785)
Fund Balances at End of Year	<u>\$552,421</u>	<u>\$977,870</u>

See Accompanying Notes to the General-Purpose Financial Statements

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
			\$424,499
			1,969,773
			157,234
\$46,750	\$17,054		63,804
	40,000		941,812
			411,113
			32,667
			21,391
	2,269		70,793
	39,574	\$1,294	104,752
<u>46,750</u>	<u>98,897</u>	<u>1,294</u>	<u>4,197,838</u>
			1,481,575
			199,895
			226,170
			29,281
			560,315
			854,441
		13	13
	380,919		380,919
1,264,706	386,472		1,655,233
133,535	11,064		148,256
<u>1,398,241</u>	<u>778,455</u>	<u>13</u>	<u>5,536,098</u>
<u>(1,351,491)</u>	<u>(679,558)</u>	<u>1,281</u>	<u>(1,338,260)</u>
	127,000		127,000
	1,046,750		1,299,000
1,350,637	537,000		2,145,508
	(981,717)		(2,145,508)
<u>1,350,637</u>	<u>729,033</u>		<u>1,426,000</u>
(854)	49,475	1,281	87,740
47,654	349,716	10,202	1,900,025
<u>\$46,800</u>	<u>\$399,191</u>	<u>\$11,483</u>	<u>\$1,987,765</u>

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Fund Types
For the Year Ended December 31, 2001**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property Taxes	\$362,750	\$424,499	\$61,749
Municipal Income Taxes	2,168,573	1,967,464	(201,109)
Other Local Taxes	225,988	140,294	(85,694)
Special Assessments			
Intergovernmental	847,216	593,702	(253,514)
Charges for Services	526,740	351,787	(174,953)
Fees, Licenses, and Permits	34,523	32,667	(1,856)
Fines and Forfeitures	25,631	19,367	(6,264)
Interest	68,114	30,168	(37,946)
Miscellaneous	185,221	55,438	(129,783)
Total Revenues	4,444,756	3,615,386	(829,370)
Expenditures			
Current:			
Security of Persons and Property	1,515,698	1,426,310	89,388
Public Health	213,303	202,833	10,470
Leisure Time Activities	292,698	234,731	57,967
Community Environment	6,793	5,878	915
Transportation			
General Government	1,196,570	1,039,914	156,656
Other			
Capital Outlay			
Debt Service:			
Principal Retirement	4,055	4,055	
Interest and Fiscal Charges	3,945	3,657	288
Total Expenditures	3,233,062	2,917,378	315,684
Excess of Revenues Over (Under) Expenditures	1,211,694	698,008	(513,686)
Other Financing Sources and (Uses)			
Other Financing Sources			
Proceeds of Bonds	300,000	252,250	(47,750)
Advances - In			
Advances - Out	(25,000)	(25,000)	
Operating Transfers - In		8,785	8,785
Operating Transfers - Out	(1,567,000)	(1,163,791)	403,209
Total Other Financing Sources (Uses)	(1,292,000)	(927,756)	364,244
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(80,306)	(229,748)	(149,442)
Fund Balances at Beginning of Year	320,690	320,690	
Prior Year Encumbrances Appropriated	28,257	28,257	
Fund Balances at End of Year	\$268,641	\$119,199	(\$149,442)

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$96,438	\$20,235	(\$76,203)			
397,763	418,677	20,914	\$50,000	\$46,750	(\$3,250)
1,000	1,159	159			
6,500	1,597	(4,903)			
75,731	45,974	(29,757)			
10,878	8,446	(2,432)			
<u>588,310</u>	<u>496,088</u>	<u>(92,222)</u>	<u>50,000</u>	<u>46,750</u>	<u>(3,250)</u>
120,642	85,842	34,800			
178,500	16,093	162,407			
740,297	582,587	157,710			
			1,633,000	1,262,945	370,055
			119,000	131,964	(12,964)
<u>1,039,439</u>	<u>684,522</u>	<u>354,917</u>	<u>1,752,000</u>	<u>1,394,909</u>	<u>357,091</u>
<u>(451,129)</u>	<u>(188,434)</u>	<u>262,695</u>	<u>(1,702,000)</u>	<u>(1,348,159)</u>	<u>353,841</u>
30,000	35,417	5,417			
325,305	257,871	(67,434)	2,500,000	1,350,637	(1,149,363)
(8,785)	(8,785)		(5,045)		5,045
<u>346,520</u>	<u>284,503</u>	<u>(62,017)</u>	<u>2,494,955</u>	<u>1,350,637</u>	<u>(1,144,318)</u>
(104,609)	96,069	200,678	792,955	2,478	(790,477)
491,693	491,693		47,654	47,654	
24,749	24,749				
<u>\$411,833</u>	<u>\$612,511</u>	<u>\$200,678</u>	<u>\$840,609</u>	<u>\$50,132</u>	<u>(\$790,477)</u>

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Governmental and Similar Fiduciary Fund Types
For the Year Ended December 31, 2001
(Continued)**

	Capital Projects Funds		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property Taxes			
Municipal Income Taxes			
Other Local Taxes			
Special Assessments	\$32,994	\$17,054	(\$15,940)
Intergovernmental			
Charges for Services			
Fees, Licenses, and Permits			
Fines and Forfeitures			
Interest	3,000		(3,000)
Miscellaneous	154,721	39,449	(115,272)
Total Revenues	190,715	56,503	(134,212)
Expenditures			
Current:			
Security of Persons and Property			
Public Health			
Leisure Time Activities			
Community Environment			
Transportation			
General Government			
Other			
Capital Outlay	784,550	321,376	463,174
Debt Service:			
Principal Retirement	1,800	365,000	(363,200)
Interest and Fiscal Charges	4,000	2,269	1,731
Total Expenditures	790,350	688,645	101,705
Excess of Revenues Over (Under) Expenditures	(599,635)	(632,142)	(32,507)
Other Financing Sources and (Uses)			
Other Financing Sources			
Proceeds of Bonds	1,200,000	1,046,750	(153,250)
Advances - In	25,000	25,000	
Advances - Out			
Operating Transfers - In	774,285	537,000	(237,285)
Operating Transfers - Out	(1,300,000)	(981,717)	318,283
Total Other Financing Sources (Uses)	699,285	627,033	(72,252)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	99,650	(5,109)	(104,759)
Fund Balances at Beginning of Year	355,894	355,894	
Prior Year Encumbrances Appropriated			
Fund Balances at End of Year	\$455,544	\$350,785	(\$104,759)

See Accompanying Notes to the General-Purpose Financial Statements

Expendable Trust Fund			Total (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
			\$362,750	\$424,499	\$61,749
			2,168,573	1,967,464	(201,109)
			322,426	160,529	(161,897)
			82,994	63,804	(19,190)
			1,244,979	1,012,379	(232,600)
			527,740	352,946	(174,794)
			34,523	32,667	(1,856)
			32,131	20,964	(11,167)
			146,845	76,142	(70,703)
\$1,000	\$1,294	\$294	351,820	104,627	(247,193)
1,000	1,294	294	5,274,781	4,216,021	(1,058,760)
			1,636,340	1,512,152	124,188
			213,303	202,833	10,470
			292,698	234,731	57,967
			185,293	21,971	163,322
			740,297	582,587	157,710
			1,196,570	1,039,914	156,656
5,000	13	4,987	5,000	13	4,987
			784,550	321,376	463,174
			1,638,855	1,632,000	6,855
			126,945	137,890	(10,945)
5,000	13	4,987	6,819,851	5,685,467	1,134,384
(4,000)	1,281	5,281	(1,545,070)	(1,469,446)	75,624
			30,000	35,417	5,417
			1,500,000	1,299,000	(201,000)
			25,000	25,000	
			(25,000)	(25,000)	
			3,599,590	2,154,293	(1,445,297)
			(2,880,830)	(2,154,293)	726,537
			2,248,760	1,334,417	(914,343)
(4,000)	1,281	5,281	703,690	(135,029)	(838,719)
10,202	10,202		1,226,133	1,226,133	
			53,006	53,006	
\$6,202	\$11,483	\$5,281	\$1,982,829	\$1,144,110	(\$838,719)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenses,
and Changes in Fund Equity
All Proprietary Fund Types
For the Year Ended December 31, 2001**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Operating Revenues			
Charges for Services	\$2,270,963	\$377,221	\$2,648,184
Other Operating Revenues	24,508	2,808	27,316
Total Operating Revenues	<u>2,295,471</u>	<u>380,029</u>	<u>2,675,500</u>
Operating Expenses			
Personal Services	847,827		847,827
Contractual Services	501,482	66,537	568,019
Materials and Supplies	633,548		633,548
Claims		351,552	351,552
Bad Debt	11,580		11,580
Depreciation	164,984		164,984
Other Operating Expenses	80,000	275	80,275
Total Operating Expenses	<u>2,239,421</u>	<u>418,364</u>	<u>2,657,785</u>
Operating Income (Loss)	<u>56,050</u>	<u>(38,335)</u>	<u>17,715</u>
Non-Operating Revenues and (Expenses)			
Interest Income		2,664	2,664
Interest Expense	(73,532)		(73,532)
Loss on Disposal of Fixed Assets	(53,875)		(53,875)
Total Non-Operating Revenues (Expenses)	<u>(127,407)</u>	<u>2,664</u>	<u>(124,743)</u>
Net Loss	(71,357)	(35,671)	(107,028)
Retained Earnings at Beginning of Year	<u>2,086,504</u>	<u>(1,945)</u>	<u>2,084,559</u>
Retained Earnings (Deficit) at End of Year	2,015,147	(37,616)	1,977,531
Contributed Capital at Beginning and End of Year	<u>307,584</u>		<u>307,584</u>
Total Fund Equity (Deficit) at End of Year	<u><u>\$2,322,731</u></u>	<u><u>(\$37,616)</u></u>	<u><u>\$2,285,115</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Revenues, Expenses, and Changes in Fund Balances
Budget and Actual Comparison (Non-GAAP Budgetary Basis)
All Enterprise Funds
For the Year Ended December 31, 2001**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Charges for Services	\$2,413,921	\$2,166,485	(\$247,436)
Proceeds of Bonds	320,000	320,000	
Other Revenues	69,797	24,508	(45,289)
Total Revenues	<u>2,803,718</u>	<u>2,510,993</u>	<u>(292,725)</u>
Expenses			
Personal Services	848,930	860,356	(11,426)
Contractual Services	475,000	453,954	21,046
Materials and Supplies	715,074	676,987	38,087
Capital Outlay	144,395	52,298	92,097
Other Expenses	80,000		80,000
Debt Service:			
Principal Retirement	460,000	456,239	3,761
Interest Expense	86,800	93,932	(7,132)
Total Expenses	<u>2,810,199</u>	<u>2,593,766</u>	<u>216,433</u>
Excess of Revenues Under Expenses	(6,481)	(82,773)	(76,292)
Fund Balances at Beginning of Year	712,644	712,644	
Prior Year Encumbrances Appropriated	40,340	40,340	
Fund Balances at End of Year	<u><u>\$746,503</u></u>	<u><u>\$670,211</u></u>	<u><u>(\$76,292)</u></u>

See Accompanying Notes to the General-Purpose Financial Statements

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2001**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Increases (Decreases) in Cash and Cash Equivalents			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$2,166,864		\$2,166,864
Cash Received from Quasi-External Operating Transactions with Other Funds		\$377,221	377,221
Cash Payments for Personal Services	(859,537)		(859,537)
Cash Payments for Contractual Services	(435,731)	(66,537)	(502,268)
Cash Payments to Suppliers	(612,733)		(612,733)
Cash Payments for Claims		(372,059)	(372,059)
Cash Received from Other Revenues	24,508	2,808	27,316
Cash Payments for Other Expenses		(275)	(275)
Net Cash Provided by (Used for) Operating Activities	<u>283,371</u>	<u>(58,842)</u>	<u>224,529</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Proceeds of Bonds	320,000		320,000
Acquisition of Fixed Assets	(104,029)		(104,029)
Principal Paid on Bond Anticipation Notes	(420,000)		(420,000)
Principal Paid on OWDA Loan	(36,239)		(36,239)
Interest Paid on Bond Anticipation Notes	(21,684)		(21,684)
Interest Paid on OWDA Loan	(64,711)		(64,711)
Interest Paid on Bonds	(7,537)		(7,537)
Net Cash Used for Capital and Related Financing Activities	<u>(334,200)</u>		<u>(334,200)</u>
<u>Cash Flows from Investing Activities</u>			
Interest		2,664	2,664
Net Decrease in Cash and Cash Equivalents	(50,829)	(56,178)	(107,007)
Cash and Cash Equivalents at Beginning of Year	<u>752,782</u>	<u>86,773</u>	<u>839,555</u>
Cash and Cash Equivalents at End of Year	<u><u>\$701,953</u></u>	<u><u>\$30,595</u></u>	<u><u>\$732,548</u></u>

(Continued)

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Combined Statement of Cash Flows
All Proprietary Fund Types
For the Year Ended December 31, 2001
(Continued)**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$56,050	(\$38,335)	\$17,715
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</u>			
Depreciation	164,984		164,984
Bad Debt	11,580		11,580
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(104,538)		(104,538)
Decrease in Due from Other Governments	439		439
Decrease in Materials and Supplies Inventory	12,026		12,026
Increase in Prepaid Items	(2,380)		(2,380)
Decrease in Accounts Payable	(9,841)		(9,841)
Increase in Contracts Payable	73,099		73,099
Decrease in Accrued Wages Payable	(2,227)		(2,227)
Increase in Compensated Absences Payable	3,692		3,692
Increase in Due to Other Funds	80,000		80,000
Decrease in Due to Other Governments	(15,893)		(15,893)
Decrease in Claims Payable		(20,507)	(20,507)
Increase in Deposits Held and Due to Others	16,380		16,380
Net Cash Provided by (Used for) Operating Activities	<u>\$283,371</u>	<u>(\$58,842)</u>	<u>\$224,529</u>

See Accompanying Notes to the General-Purpose Financial Statements

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001**

1. DESCRIPTION OF THE CITY OF PORT CLINTON AND THE REPORTING ENTITY

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to influence significantly 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 2001.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

November 30, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

A. Fund Accounting

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

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

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

Governmental Fund Types

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

General Fund

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

Special Revenue Funds

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

Debt Service Funds

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Capital Projects Funds

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

Proprietary Fund Types

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

Enterprise Funds

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

Internal Service Fund

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

Fiduciary Fund Types

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

Account Groups

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

General Fixed Assets Account Group

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

General Long-Term Obligations Account Group

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

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

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

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

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

Non-exchange 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 period 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 non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: income taxes, state levied locally shared taxes

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

(including gasoline tax and motor vehicle license tax), grants, charges for services, fines and forfeitures, and interest.

Deferred revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there was an enforceable legal claim as of December 31, 2001, but which were levied to finance 2002 operations, are recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, revenues that are not collected within the available period are recorded as deferred revenue.

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

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

C. Budgetary Process

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

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

Tax Budget

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

Estimated Resources

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 2001.

Appropriations

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

Budgeted Level of Expenditures

Administrative control is maintained through the establishment of detailed line-item budgets. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by the City Council. For all funds, council appropriations are made to personal services, contractual services, materials and supplies, capital outlay, other expenditures, debt retirement, and transfer accounts for each department. The appropriations set by the City Council must remain fixed unless amended by City Council resolution. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within the City Council's appropriated amount.

Encumbrances

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

Lapsing of Appropriations

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

D. Cash and Investments

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

Investments are reported at fair value, except for repurchase agreements which are reported at cost. Fair value is based on quoted market prices. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2001.

The City has allocated interest earnings according to Ohio statutes. As such, interest revenue credited to the General fund during 2001 was \$24,063, which includes \$20,693 assigned from other City funds.

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

E. Materials and Supplies Inventory

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2001, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

G. Restricted Assets

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

H. Fixed Assets

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

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

General Fixed Assets

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

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

Proprietary Fund Fixed Assets

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

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

Capitalization of Interest

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from the temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on a straight-line basis over the estimated useful life of the asset. For 2001, there was no capitalized interest cost incurred on enterprise fund construction projects.

I. Interfund Assets/Liabilities

Short-term interfund loans are classified as "Interfund Receivables/Payables". Receivables and payables arising between funds for goods provided or services rendered are classified as "Due from/to Other Funds" on the combined balance sheet.

J. Compensated Absences

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

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

K. Accrued Liabilities and Long-Term Obligations

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

L. Contributed Capital

Contributed capital represents contributions made prior to 2001 by the City and other governments. These assets are recorded at their fair market value on the date contributed and are not subject to repayment. Depreciation on assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year end. Capital contributions received in 2001 have been recorded as revenues and reported as increases in retained earnings based on guidelines established by GASB Statement No. 33, "Accounting and Financial Reporting for Non-exchange Transactions".

M. Reserves of Fund Equity

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

N. Interfund Transactions

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

O. Estimates

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

P. Total Columns on General Purpose Financial Statements

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

3. CHANGE IN ACCOUNTING PRINCIPLES

For 2001, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions" and GASB Statement No. 36, "Recipient Reporting for Certain Shared Nonexchange Revenues". These statements establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources. The timing for the recognition of assets, liabilities, and expenditures/expenses resulting from nonexchange transactions will be the same whether the accrual or the modified accrual basis of accounting is required. However, for revenue recognition to occur on the modified accrual basis the criteria established for accrual basis revenue recognition must be met and the revenues must be available. The provisions of Statement No. 33 also require that capital contributions to proprietary funds be recognized as revenues beginning in 2001. For the City, the implementation of these statements had no effect on fund balances/retained earnings as previously reported as of December 31, 2000.

4. ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2001, the Parks and Recreation capital projects fund had a deficit fund balance of \$24,180. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

At December 31, 2001, the Self-Insurance internal service fund had deficit retained earnings, in the amount of \$37,616, which was the result of claims expenses and the costs associated with claims processing exceeding premiums charged for the payment of those claims. The City implemented an 18 percent increase in premiums on January 1, 2002.

B. Compliance

The following accounts had expenditures/expenses plus encumbrances in excess of appropriations for the year ended December 31, 2001.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Fund Type/Fund/ Department or Object	Appropriations	Expenditures/ Expenses Plus Encumbrances	Excess
Debt Service Fund			
General Bond Retirement			
Interest and Fiscal Charges	\$100,000	\$116,637	\$16,637
Capital Projects Fund			
Municipal Purposes			
Interest and Fiscal Charges	1,800	365,000	363,200
Enterprise Funds			
Water			
Personal Services	336,440	363,114	26,674
Interest Expense	68,800	69,543	743
Sewer			
Interest Expense	18,000	24,389	6,389

5. BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances/retained earnings on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Enterprise Funds are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Outstanding year end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for the governmental fund types and the expendable trust fund (GAAP basis). Material encumbrances are disclosed in the notes for the proprietary fund types (GAAP basis).
4. For the proprietary funds, the acquisition and construction of fixed assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
5. Although not part of the appropriated budget, the Self-Insurance internal service fund is included as part of the reporting entity when preparing financial statements that conform with GAAP.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses All Governmental Fund Types				
	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$28,720	\$9,118	(\$854)	\$49,475
<u>Increases (Decreases) Due To</u>				
Revenue Accruals:				
Accrued 2000, Received in Cash 2001	403,933	101,282		
Accrued 2001, Not Yet Received in	(428,969)	(23,287)		
Expenditure Accruals:				
Accrued 2000, Paid in Cash 2001	(288,689)	(35,003)		(6,178)
Accrued 2001, Not Yet Paid in Cash	95,823	26,519	3,332	2,401
Cash Adjustments:				
Unrecorded Activity 2000	7,106	4,335		
Unrecorded Activity 2001	(1,001)	(2,822)		(2,269)
Notes Receivable - Repayments		35,417		
Notes Receivable - Written Off		9,102		
Materials and Supplies Inventory	1,070	561		
Prepaid Items	4,118	465		
Advances - In				25,000
Advances - Out	(25,000)			
Residual Equity Transfer	8,785	(8,785)		
Encumbrances Outstanding at Year End (Budget Basis)	(35,644)	(20,833)		(73,538)
Budget Basis	(\$229,748)	\$96,069	\$2,478	(\$5,109)

	Enterprise	Internal Service
GAAP Basis	(\$71,357)	(\$35,671)
<u>Increases (Decreases) Due To</u>		
Revenue Accruals:		
Accrued 2000, Received in Cash 2001	483,755	
Accrued 2001, Not Yet Received in Cash	(587,854)	
Expense Accruals:		
Accrued 2000, Paid in Cash 2001	(270,250)	(88,718)
Accrued 2001, Not Yet Paid in Cash	406,640	68,211

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

	Enterprise	Internal Service
Cash Adjustments:		
Unrecorded Activity 2000	(379)	
Unrecorded Activity 2001		
Materials and Supplies Inventory	12,026	
Prepaid Items	(2,380)	
Acquisition of Fixed Assets	(104,029)	
Depreciation Expense	164,984	
Loss on Disposal of Fixed Assets	53,875	
Proceeds of Bonds	320,000	
Note Principal Retirement	(420,000)	
OWDA Principal Retirement	(36,239)	
Excess Revenues Under Expenses for Nonbudgeted Fund		56,178
Encumbrances Outstanding at Year End (Budget Basis)	(31,565)	
Budget Basis	(\$82,773)	

6. DEPOSITS AND INVESTMENTS

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

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

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

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

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

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

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

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

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

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

At year end, the City had \$2,561 in undeposited cash on hand which is included on the combined balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents". The City had \$30,595 in cash and cash equivalents which are included on the combined balance sheet as part of "Cash and Cash Equivalents with Fiscal Agents". This represents monies held by Ohio Mid-

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Eastern Regional Education Service Agency (OME-RESA). OME-RESA is the City's fiscal agent for health insurance, and therefore, the City cannot classify this money by risk under GASB Statement No. 3.

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

At year end, the carrying amount of the City's deposits was \$223,594 and the bank balance was \$253,277. Of the bank balance, \$193,232 was covered by federal depository insurance and \$60,045 was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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

	Category 1	Category 3	Carrying Value	Fair Value
Repurchase Agreements		\$348,732	\$348,732	\$348,743
City of Port Clinton Bonds	\$54,638		54,638	54,638
	\$54,638	\$348,732		
STAR Ohio			1,370,381	1,370,381
			\$1,773,751	\$1,773,762

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

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$2,030,501	
Cash on Hand	(2,561)	
Cash and Cash Equivalents with Fiscal Agents	(30,595)	

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

	Cash and Cash Equivalents/ Deposits	Investments
Investments:		
Repurchase Agreements	(348,732)	\$348,732
City of Port Clinton Bonds	(54,638)	54,638
STAR Ohio	(1,370,381)	1,370,381
GASB Statement No. 3	\$223,594	\$1,773,751

7. PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2001 represent the collection of 2000 taxes. Real property taxes were levied after October 1, 2001, on the assessed values as of January 1, 2001, the lien date. These taxes will be collected in and are intended to finance 2002 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2000. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility real and tangible personal property taxes were levied after October 1, 2001, on the assessed values as of December 31, 2000, the lien date. These taxes will be collected in and are intended to finance 2002 operations. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2001 (other than public utility property) represent the collection of 2001 taxes. Tangible personal property taxes received in 2001 were levied after October 1, 2000, on the true value as of December 31, 2000. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2001, and for which there was an enforceable legal claim. Although total property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2001 operations.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

The full tax rate for all City operations for the year ended December 31, 2001, was \$3.90 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2001 property tax receipts were based are as follows:

Category	Amount
Real Property	
Agricultural/Residential	\$77,611,650
Commercial/Industrial	27,304,530
Public Utility Property	
Real	18,970
Personal	9,626,550
Tangible Personal Property	8,432,790
Total Assessed Value	\$122,994,490

8. MUNICIPAL INCOME TAXES

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

9. RECEIVABLES

Receivables at December 31, 2001, consisted of taxes; special assessments; accounts (billings for user charged services, including unbilled utility services); interfund; notes; services charged to other funds; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible, except for accounts receivable related to utility services.

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$264,530	\$323,324	\$587,854
Less Allowance for Uncollectibles	(22,061)	(40,033)	(62,094)
Net Accounts Receivable	\$242,469	\$283,291	\$525,760

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

A summary of the principal items of intergovernmental receivables follows:

	Amount
General Fund	
Estate Tax	\$12,292
Fines and Forfeitures	799
Local Government	239,590
Homestead and Rollback	30,531
Liquor Permits	3,389
Ambulance Runs	275
Total General Fund	286,876
Special Revenue Funds	
Main Thoroughfare	
Permissive Motor Vehicle License Tax	10,320
State Highway	
Gasoline Tax	6,217
Motor Vehicle License Tax	2,960
Total State Highway	9,177
Street Maintenance	
Gasoline Tax	76,681
Motor Vehicle License Tax	27,346
Total Street Maintenance	104,027
COPS Grant	
COPS Grant	4,083
Total Special Revenue Funds	127,607
Capital Projects Fund	
Park and Recreation	
Coastal Management Grant	25,000
Total All Funds	\$439,483

10. NOTES RECEIVABLE

A summary of the changes in notes receivable during 2001 follows:

	Balance 12/31/2000	New Loans	Repayments	Written Off During 2001	Balance 12/31/2001
Special Revenue Funds					
CDBG					
Individual Loans	\$179,658		\$18,774	\$748	\$160,136
FHA HPG Revolving Loan					
Individual Loans	192,766		16,643	8,354	167,769
Total	\$372,424		\$35,417	\$9,102	\$327,905

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

11. FIXED ASSETS

A. General Fixed Assets

A summary of the changes in general fixed assets during 2001 is as follows:

	Balance 12/31/00	Additions	Reductions	Balance 12/31/01
Land	\$446,482	\$100,000		\$546,482
Buildings and Improvements	1,581,621			1,581,621
Furniture, Fixtures, and Equipment	1,239,555	324,141	\$46,735	1,516,961
Vehicles	1,183,898	307,912	62,362	1,429,448
Total General Fixed Assets	\$4,451,556	\$732,053	\$109,097	\$5,074,512

B. Enterprise Fund Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 2001, follows:

	Water	Sewer	Total Enterprise Funds
Land	\$26,517	\$8,760	\$35,277
Buildings and Improvements	973,100	1,268,400	2,241,500
Furniture, Fixtures, and Equipment	243,808	494,524	738,332
Vehicles	57,770	39,173	96,943
Water and Sewer Lines	2,035,683	399,929	2,435,612
Total	3,336,878	2,210,786	5,547,664
Less Accumulated Depreciation	1,332,682	1,490,483	2,823,165
Total Fixed Assets Net of Accumulated Depreciation	\$2,004,196	\$720,303	\$2,724,499

12. INTERFUND ASSETS/LIABILITIES

At December 31, 2001, the General Fund had an interfund receivable and the Parks and Recreation capital projects fund had an interfund payable, in the amount of \$25,000.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

At December 31, 2001, the General Fund had \$80,000 due from other funds for services provided to the water and sewer enterprise funds, in the amount of \$40,000 each.

13. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2001, the City contracted with the Ohio Government Risk Management Plan, an insurance pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$7,266,160	\$1,000
Special Property	918,300	500
Electronic Equipment	89,400	500
Electronic Media	60,000	500
Extra Expense	20,000	500
Arson Reward	5,000	
Fire Department Service Charge	1,000	
Outdoor Property	100,000	
Personal Effects	2,500	
Pollution Clean Up and Removal	25,000	
Property Off Premises	10,000	
Accounts Receivable	100,000	
Builders Risk	500,000	
Fine Arts	25,000	
Fire Protection Services	5,000	
Newly Acquired or Constructed Building	500,000	
Newly Acquired Personal Property	100,000	
Valuable Papers and Records	100,000	
Utility Services	25,000	
Property in Transit	25,000	
General Liability		
Occurrence	1,000,000	
Aggregate	3,000,000	
Medical Expense		
Per Person	10,000	
Aggregate	50,000	
Employer's Liability	1,000,000	
Employee Benefits		
Occurrence	1,000,000	
Aggregate	3,000,000	

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Public Officials Liability		
Occurrence	1,000,000	5,000
Aggregate	3,000,000	5,000
Law Enforcement Liability		
Occurrence	1,000,000	5,000
Aggregate	3,000,000	5,000
Medical Expense		
Occurrence	10,000	5,000
Aggregate	50,000	5,000
Crime	25,000	0/100
Auto Liability	1,000,000	500
Medical Payments	5,000	500
Property Damage	50,000	250/500
Property Damage-Emergency	100,000	250/500

There has been no significant reduction in insurance coverage from 2000, and no insurance settlement has exceeded insurance coverage during the last three years.

The City has elected to provide employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior and current year claims. For 2001, the City utilized a claims servicing pool, the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) to process all claims. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. At December 31, 2001, the City had \$30,595 on deposit with OME-RESA.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$30,000 per individual. Claims ranging from \$30,000 to \$50,000 are paid by OME-RESA, and claims in excess of \$50,000 are covered by stop-loss insurance. Settled claims have not exceeded the stop-loss coverage for the last three years.

Claims payable is based on the requirements of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 2001, is estimated by the third party administrator at \$68,211.

The changes in the claims liability for 2001 and 2000 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2001	\$88,718	\$351,552	\$372,059	\$68,211
2000	68,089	334,023	313,394	88,718

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

For 2001, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

14. COMPENSATED ABSENCES

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

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

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

15. DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (the System), a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 9.25 percent was the portion used to fund pension obligations for 2001, an increase from 6.54 percent in 2000. For 2000, the System instituted a temporary employer rate rollback. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to the System for the years ended December 31, 2001, 2000, and 1999, were \$167,500, \$122,167, and \$179,097, respectively; 74 percent has been contributed for 2001 and 100 percent has been contributed for 2000 and 1999. The unpaid contribution for 2001, in the

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

amount of \$43,092, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police (12 percent was the portion used to fund pension obligations for 2001, a decrease from 12.25 for 2000). Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 2001, 2000, and 1999, were \$73,893, \$77,579, and \$75,699, respectively; 70 percent has been contributed for 2001 and 100 percent has been contributed for 2000 and 1999. The unpaid contribution for 2001, in the amount of \$22,401, is recorded as a liability within the respective funds and the general long-term obligations account group.

16. POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Post-Employment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 4.3 percent was the portion used to fund health care for 2001. In 2000, the employer contribution rate was 10.84 percent of covered payroll; 4.3 percent was the portion used to fund health care.

Benefits are advance funded using the entry age normal cost method. Significant actuarial assumptions include a rate of return on investments of 7.75 percent, an annual increase in active employee total payroll of 4.75 percent compounded annually, and an additional increase in total payroll of .54 percent to 5.1 percent based on additional pay increases. Health care premiums were assumed to increase 4.75 percent annually.

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

At December 31, 2001, the total number of benefit recipients eligible for OPB through the System was 411,076. As of December 31, 2001, the actuarial value of net assets available for future OPB payments was \$11,735.9 million. The actuarially accrued liability and the unfunded actuarial liability were \$14,364.6 million and \$2,628.7 million, respectively. The City's actual contributions for 2001 which were used to fund OPB were \$77,865.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by the retirement system is considered an Other Post-Employment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution rate was 19.5 percent of covered payroll and the firefighter employer contribution rate was 24 percent; 7.5 percent was the portion used to fund health care for 2001. The portion used to fund health care was 7.25 percent in 2000. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 2000, was 12,853 for police and 10,037 for firefighters. The City's actual contributions for 2001 that were used to fund post-employment benefits were \$46,183 for police. The Fund's total health care expenses for the year ended December 31, 2000, (the latest information available), were \$106,160,054, which was net of member contributions of \$5,657,431.

17. SHORT-TERM OBLIGATIONS

The Water enterprise fund retired \$75,000 in bond anticipation notes and the Sewer enterprise fund retired \$345,000 in bond anticipation notes during 2001.

18. LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2001, was as follows:

	Interest Rate	Balance 12/31/00	Additions	Reductions	Balance 12/31/01
<u>General Long-Term Obligations</u>					
Notes Payable	4.43- 5.75%	\$1,599,000		\$1,599,000	
General Obligation Bonds	4.089- 6.22%	58,978	\$1,299,000	4,055	\$1,353,923
Special Assessment Bonds	5.75- 10.875%	276,660		30,706	245,954

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Compensated Absences Payable		118,828		4,971	113,857
Due to Other Governments		71,397	77,484	71,397	77,484
Capital Leases Payable	5.73%		127,000	21,472	105,528
Total General Long-Term Obligations		2,124,863	1,503,484	1,731,601	1,896,746
<u>Enterprise Fund Long-Term Obligations</u>					
General Obligation Revenue Bonds	4.90%		320,000		320,000
OWDA Loan Payable	5.54%	1,027,009		36,239	990,770
Compensated Absences Payable		65,581	3,692		69,273
Total Enterprise Fund Long-Term Obligations		1,092,590	323,692	36,239	1,380,043
Total Long-Term Obligations		\$3,217,453	\$1,827,176	\$1,767,840	\$3,276,789

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton. The general obligation bonds presented as a liability in the general long-term obligations account group are payable from unvoted property tax revenues.

General Obligation Revenue Bonds

The general obligation revenue bonds are liabilities of the Water and Sewer enterprise funds and pledge their respective revenues for repayment. The bonds also pledge the full faith and credit and taxing ability of the City in the event that the enterprise fund revenues are not sufficient to meet principal interest requirements.

Special Assessment Bonds

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

Compensated Absences Payable

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

Due to Other Governments

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

Capital Leases Payable

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

OWDA Loan Payable

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

The City's legal debt margin was \$11,245,543 at December 31, 2001.

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

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2002	\$281,880	\$57,129	\$18,506	\$15,875
2003	244,639	45,972	18,653	14,649
2004	207,398	35,436	18,808	13,415
2005	207,398	25,814	18,973	12,171
2006	203,674	16,280	19,147	10,919
2007-2011	195,665	16,406	97,615	34,926
2012-2016	13,269	1,645	54,252	7,651
	<u>\$1,353,923</u>	<u>\$198,682</u>	<u>\$245,954</u>	<u>\$109,606</u>

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

Year	General Obligation Bonds		OWDA Loan	
	Principal	Interest	Principal	Interest
2002	\$70,175	\$13,960	\$38,247	\$62,703
2003	57,416	10,835	40,366	60,584
2004	44,657	8,334	42,602	58,348
2005	44,657	6,145	44,963	55,988
2006	43,381	3,989	47,453	53,497
2007-2011	59,714	2,827	279,737	225,013
2012-2016			366,299	138,451
2017-2019			131,103	20,227
	<u>\$320,000</u>	<u>\$46,090</u>	<u>\$990,770</u>	<u>\$674,811</u>

19. CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into a capitalized lease for equipment. The lease meets 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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

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

Equipment has been capitalized in the general fixed assets account group, in the amount of \$127,000. This amount represents the present value of the minimum lease payments at the time of acquisition. A corresponding liability was recorded in the general long-term obligations account group. Principal payments in 2001 were \$21,472 in the governmental funds.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2001.

Year Ending December 31,	GLTDAG
2002	\$30,267
2003	30,266
2004	30,266
2005	30,266
Subtotal	121,065
Less Amount Representing Interest	(15,537)
Present Value of Minimum Lease Payments	\$105,528

20. SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers for water and sewer services. Financial segment information as of and for the year ended December 31, 2001, was as follows:

	Water	Sewer	Total Enterprise Funds
Operating Revenues	\$1,044,250	\$1,251,221	\$2,295,471
Depreciation	88,604	76,380	164,984
Operating Income	26,359	29,691	56,050
Net Income (Loss)	(82,445)	11,088	(71,357)
Fixed Assets			
Additions	41,062	62,967	104,029
Reductions	81,700	27,324	109,024
Net Working Capital	425,931	549,417	975,348
Long-Term Obligations			
General Obligation Bonds Payable	45,000	275,000	320,000
OWDA Loan Payable	990,770		990,770
Compensated Absences Payable	20,584	45,762	66,346

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**Notes to the General-Purpose Financial Statements
For the Year Ended December 31, 2001
(Continued)**

Total Assets	2,538,652	1,439,854	3,978,506
Total Equity	1,373,773	948,958	2,322,731
Encumbrances Outstanding at Year End (Budget Basis)	6,448	25,117	31,565

21. INSURANCE POOLS

A. Ohio Government Risk Management Plan

The City participates in the Ohio Government Risk Management Plan (the Plan), an insurance purchasing pool consisting of various entities in the State of Ohio. The intent of the Plan is to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. Membership in the Plan is by written application subject to the approval of the Plan Manager. Financial information may be obtained from the Ohio Government Risk Management Plan, 1505 Jefferson Avenue, Toledo, Ohio 43603.

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

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan was established through the North Central Ohio Municipal Finance Officers' Association (NCOMFOA) as an insurance purchasing pool.

Larry Rush serves as coordinator of the NCOMFOA. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

22. CONTINGENT LIABILITIES

A. Litigation

There are currently no matters in litigation with the City as a defendant.

B. Federal and State Grants

For the period January 1, 2001, to December 31, 2001, 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.



STATE OF OHIO
OFFICE OF THE AUDITOR

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

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

We have audited the financial statements of the City of Port Clinton (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated August 27, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 27, 2002.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control structure over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated August 27, 2002.

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

A handwritten signature in black ink, appearing to read "Jim Petro". The signature is stylized with a large, looping initial "J" and a cursive "Petro".

Jim Petro
Auditor of State

August 27, 2002



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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Facsimile 614-466-4490

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 24, 2002**