



**Auditor of State
Betty Montgomery**

City of Port Clinton
Table of Contents

Title	Page
Independent Accountants' Report	1
Management's Discussion and Analysis.....	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	14
Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities	15
Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Funds	16
Reconciliation of Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to Statement of Activities.....	17
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual General Fund.....	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - Street Maintenance Fund	19
Statement of Fund Net Assets -Proprietary Funds.....	20
Statement of Revenues, Expenses, and Change in Fund Net Assets - Proprietary Funds	21
Statement of Cash Flows - Proprietary Funds	22
Statement of Fiduciary Assets and Liabilities - Agency Funds.....	24
Notes to the Basic Financial Statements	25
Schedule of Federal Awards Expenditures	59
Notes to the Schedule of Federal Awards Expenditures	60
Independent Accountants' Report on Compliance and on Internal Control Required by <i>Government Auditing Standards</i>	61
Independent Accountants' Report on Compliance with Requirements Applicable to Major Federal Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	63
Schedule of Findings.....	65
Schedule of Prior Audit Finding	68

This page intentionally left blank.



**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANT'S REPORT

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

To the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General and the Street Maintenance funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

As discussed in Note 3 and Note 10, the City changed its capital assets threshold policy during 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

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

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



Betty Montgomery
Auditor of State

March 21, 2005

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

The discussion and analysis of the City of Port Clinton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

Key highlights for 2003 are as follows:

In total, the City's net assets increased \$1,115,832, or 9 percent; the 2.5 percent increase for governmental activities was insignificant but the 20 percent increase for business-type activities was a sizable change. This increase is almost entirely related to the increase in capital assets in the Sewer enterprise fund. During 2003, construction on the wastewater treatment plant added over \$5.5 million to the City's capital assets. Overall, the City's investment in capital assets net of related debt for business-type activities increased over \$1.1 million.

In 2002, the City hired an engineering firm to design a facility that would increase the capacity of the wastewater treatment plant to incorporate three overflow structures. This was in response to a concern by both the Ohio and US EPA. The first phase of construction is now completed. The overall time frame for construction is eighteen months.

The City's Water and Sewer enterprise funds both reflect an operating income for 2003 which indicates that, for the time being, operating revenues are sufficient to cover operating expenses of each fund.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2003. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water and sewer operations. The internal service fund is an accounting device used to accumulate and allocate

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

internal costs among other programs and activities. The City's internal service fund accounts for the City's self-insured program for employee health care benefits.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2003 compared to 2002.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<u>Assets</u>						
Current and Other Assets	\$4,406,031	\$4,022,182	\$1,756,376	\$2,073,210	\$6,162,407	\$6,095,392
Capital Assets, Net	5,632,253	5,914,078	10,529,500	4,788,019	16,161,753	10,702,097
Total Assets	<u>10,038,284</u>	<u>9,936,260</u>	<u>12,285,876</u>	<u>6,861,229</u>	<u>22,324,160</u>	<u>16,797,489</u>
<u>Liabilities</u>						
Current and Other Liabilities	1,012,940	834,834	986,586	1,041,625	1,999,526	1,876,459
Long-Term Liabilities	1,322,947	1,551,083	5,850,979	1,258,833	7,173,926	2,809,916
Total Liabilities	<u>2,335,887</u>	<u>2,385,917</u>	<u>6,837,565</u>	<u>2,300,458</u>	<u>9,173,452</u>	<u>4,686,375</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	4,628,568	4,704,757	4,747,674	3,608,379	9,376,242	8,313,136
Restricted	1,912,582	1,823,805	0	0	1,912,582	1,823,805
Unrestricted	1,161,247	1,021,781	700,637	952,392	1,861,884	1,974,173
Total Net Assets	<u>\$7,702,397</u>	<u>\$7,550,343</u>	<u>\$5,448,311</u>	<u>\$4,560,771</u>	<u>\$13,150,708</u>	<u>\$12,111,114</u>

As mentioned previously, there was a 2.01 percent increase in the City's net assets for governmental activities. Total assets for governmental activities had an increase of 1.02 percent. The most significant change in current assets was related to amounts due from other governments. The increase of over \$278,000 occurred as a result of receivables from the Ohio Public Works Commission and Ottawa County related to the Perry Street project. There was also an increase in cash and cash equivalents of over \$184,000, much of which was simply from current year operations (revenues exceeded expenditures

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

for the year allowing for cash increases). The decrease in capital assets was due to annual depreciation expense.

Total liabilities for governmental activities decreased slightly more than assets, just over 2 percent. The only item of significance here was the increase in contracts payable, again related to the Perry Street project. The decrease in long-term liabilities was due to the retirement of debt.

Conversely, the 20 percent increase in net assets for business-type activities was significant. Unfortunately there was a decrease in cash and cash equivalents of close to \$425,000 (primarily for the pump station and wastewater treatment plant improvements). This decrease in current assets was somewhat offset by an increase in the amount due from other governments. This relates to resources due from the Ohio Water Development Authority (OWDA) for the wastewater treatment plant improvements. By far, the greatest effect on total assets was the increase in capital assets, specifically construction in progress on the wastewater treatment plant.

Surprisingly, while construction continues on the wastewater treatment plant, the City had a reduction in contracts payable compared to the prior year. However, retainage being held on the various contractors increased as construction activities go forward. Note the increase in long-term liabilities. The City obtained an additional \$4.6 million in OWDA loan proceeds during 2003 related to the wastewater construction project. A comparison of the increase in capital assets to the increase in long-term liabilities reveals a difference of approximately \$1.1 million. This closely corresponds to, and is the cause for, the City's increase in invested in capital assets net of related debt.

Table 2 reflects the change in net assets for 2003. Since this is the first year the City has prepared financial statements according to GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior year information is available, a comparative analysis of government-wide data will be presented.

Table 2
Change in Net Assets

	Governmental Activities
	2003
<u>Revenues</u>	
Program Revenues	
Charges for Services	\$596,705
Operating Grants, Contributions, and Interest	766,292
Capital Grants and Contributions	42,810
Total Program Revenues	1,405,807
General Revenues	
Property Taxes Levied for General Purposes	452,573
Municipal Income Taxes	2,110,458
Other Local Taxes	151,653
	(Continued)

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Table 2 (Continued)
Change in Net Assets

	Governmental Activities
	2003
Grants and Entitlements not Restricted to Specific Programs	536,904
Franchise Fees	31,041
Interest	30,923
Other	99,360
Total General Revenues	3,412,912
Total Revenues	4,818,719
Transfers	(3,178)
Total Revenues and Transfers	4,815,541
<u>Program Expenses</u>	
Security of Persons and Property - Police	\$1,408,931
Security of Persons and Property - Fire	272,351
Security of Persons and Property - Ambulance	127,911
Public Health	213,095
Leisure Time Activities	231,372
Community Environment	228,937
Transportation	940,273
General Government	1,148,435
Interest and Fiscal Charges	52,762
Total Expenses	4,624,067
Increase in Net Assets	\$191,474

For governmental activities, program revenues make up 29 percent of total revenues, the biggest share of which is operating and capital grants received by the City. The remaining 71 percent of total revenues are general revenues, the primary source of which is municipal income taxes (62 percent of general revenues). Overall, tax revenues from all combined sources make up well over half of the City's operating resources.

Safety related activities (police, fire, and ambulance) account for 39 percent of all of the City's governmental activities expenses. And of course, the vast majority of these costs are police department related since the City has a volunteer fire department. The City's second largest expense is related to general government costs, those costs primarily associated with running the City (costs consist of the mayor's office, the City auditor and treasurer, the law director, safety service director, income tax department, building and grounds maintenance, and insurances, etc). Transportation related expenses make up another area of significant expense to the City. This involves the street department and construction and maintenance of the City's streets. These three areas pose 84.29 percent of the burden on the City's finances.

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

Table 3 indicates the total cost of services and the net cost of services for governmental activities. The statement of activities reflects the cost of program services and the charges for services, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by tax revenues and unrestricted intergovernmental revenues. Comparisons to 2002 have not been made since they are not available for this year.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
	2003	2003
Security of Persons and Property - Police	\$1,408,931	\$1,320,004
Security of Persons and Property - Fire	272,351	210,702
Security of Persons and Property - Ambulance	127,911	(14,724)
Public Health	213,095	74,033
Leisure Time Activities	231,372	146,431
Community Environment	228,937	(67,291)
Transportation	940,273	403,139
General Government	1,148,435	1,120,868
Interest and Fiscal Charges	52,762	52,762
Total Expenses	<u>\$4,624,067</u>	<u>\$3,245,924</u>

With over 70 percent of the resources used by the City for operations being provided by general revenues, the City's dependence on the largest source, that being municipal income taxes, is critical. As noted above, the City's police and fire operations are almost entirely funded through general revenues. The same can be said for general government operations. As the City bills individuals or their insurance for ambulance runs, revenues generated by this billing actually exceeded costs in 2003 by a little over 11.5 percent. The City also received a small grant for EMS training in 2003. Both the public health and leisure time activities programs benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of cemetery lot sales for public health and sports league fees, parking fees, and concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. In 2003, these grant resources exceeded the costs of operations for this program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle license fees. In addition, this program receives operating grants in the form of State levied motor vehicle and gas taxes and, in 2003, received a capital grant for improvements on Perry Street.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the Street Maintenance special revenue fund. While the General Fund had an increase in fund balance of a little over 12 percent, this was the result of transfer activity rather than from operations. Revenues and expenditures in the General Fund

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

almost match those of the prior year; however, the General Fund did transfer less resources out to other funds than it did in the prior year and transfers in were greater. The change in fund balance for the Street Maintenance fund was just over \$2,000 and not significant.

PROPRIETARY FUNDS FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. As can be seen on the statement of activities, program revenues, primarily charges for services, have been sufficient to cover the operating expenses these funds. Although the Sewer fund currently has a positive operating income, this fund is accumulating a significant amount of debt for the major renovations in progress at the wastewater treatment plant. The City increased sewer rates by 20 percent as of April 2002. In April 2003, the rate increased an additional 4% (all part of the ordinance passed in 1996 for an ongoing 4 percent increase every year on April 1 until the rates need to either increase more or level off). The ordinance provides additional funds for operations and future debt retirement.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute. This includes the annual appropriations ordinance which is passed by City Council before April 1 each year. The City operates under a temporary budget for the first three months of each year. The City's most significant budgeted fund is the General Fund. Modifications from the original to the final budget and from the final budget to actual revenues and expenditures recognized have been minimal. Once again, the increase in fund balance in this fund was largely due to transfer activity.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2003, was \$4,628,568 and \$4,747,674, respectively (net of accumulated depreciation and related debt). Capital asset additions and disposals for governmental activities were minimal. For business-type activities, there was a significant increase in construction in progress for the wastewater treatment plan renovations. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2003, the City had \$934,912 in general obligation bonds and \$208,795 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$185,901 in general obligation bonds, \$5,570,025 in OWDA loans (of which, \$4,659,168 was new proceeds in 2003), and \$25,900 in OPWC loans outstanding at year end.

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

City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2003

CURRENT ISSUES

The City is still in the construction phase of the wastewater hydraulic expansion. The City's sewer rates increased 20 percent as of April 2002. In April 2003, the rate increased an additional 4 percent (all part of the ordinance passed in 1996 for an ongoing 4 percent increase every year on April 1 until the rates need to either increase more or level off). The City's current rates are among the highest in the State of Ohio due to what needs to be done to comply with the U.S. EPA Consent Decree. The City must comply by 2006 in order to meet the State and Federal requirement for wastewater compliance standards. These standards are directly linked to our sewer rates.

REQUEST FOR INFORMATION

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

City of Port Clinton
Statement of Net Assets
December 31, 2003

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,832,359	\$873,232	\$2,705,591
Account Receivable	94,526	408,981	503,507
Due from Other Governments	620,280	480,455	1,100,735
Municipal Income Taxes Receivable	564,068	0	564,068
Other Local Taxes Receivable	2,145	0	2,145
Internal Balances	40,822	(40,822)	0
Prepaid Items	39,258	8,596	47,854
Materials and Supplies Inventory	34,857	25,934	60,791
Property Taxes Receivable	470,443	0	470,443
Notes Receivable	331,070	0	331,070
Special Assessments Receivable	376,203	0	376,203
Nondepreciable Capital Assets	516,482	7,414,599	7,931,081
Depreciable Capital Assets, Net	5,115,771	3,114,901	8,230,672
Total Assets	10,038,284	12,285,876	22,324,160
<u>Liabilities</u>			
Accrued Wages Payable	89,499	34,072	123,571
Accounts Payable	58,302	28,854	87,156
Contracts Payable	123,693	487,892	611,585
Retainage Payable	13,581	352,744	366,325
Due to Other Governments	148,193	47,020	195,213
Accrued Interest Payable	3,475	442	3,917
Deposits Held and Due to Others	0	35,562	35,562
Deferred Revenue	458,324	0	458,324
Claims Payable	117,873	0	117,873
Long-Term Liabilities			
Due Within One Year	276,506	101,741	378,247
Due in More Than One Year	1,046,441	5,749,238	6,795,679
Total Liabilities	2,335,887	6,837,565	9,173,452
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	4,628,568	4,747,674	9,376,242
Restricted for			
Debt Service	58,963	0	58,963
Capital Projects	673,726	0	673,726
Other Purposes	1,179,893	0	1,179,893
Unrestricted	1,161,247	700,637	1,861,884
Total Net Assets	\$7,702,397	\$5,448,311	\$13,150,708

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,408,931	\$11,985	\$76,942	\$0
Fire	272,351	60,000	1,649	0
Ambulance	127,911	136,360	6,275	0
Public Health	213,095	139,062	0	0
Leisure Time Activities	231,372	84,099	842	0
Community Environment	228,937	32,022	291,870	0
Transportation	940,273	105,610	388,714	42,810
General Government	1,148,435	27,567	0	0
Interest and Fiscal Charges	52,762	0	0	0
Total Governmental Activities	4,624,067	596,705	766,292	42,810
<u>Business-Type Activities</u>				
Water	1,132,358	1,203,654	0	0
Sewer	1,028,555	1,314,698	0	559,670
Total Business-Type Activities	2,160,913	2,518,352	0	559,670
Total	\$6,784,980	\$3,115,057	\$766,292	\$602,480

General Revenues

Property Taxes Levied for General Purposes

Municipal Income Taxes

Other Local Taxes

Grants and Entitlements not Restricted to Specific Programs

Franchise Fees

Interest

Other

Total General Revenues

Transfers

Change in Net Assets

Net Assets Beginning of Year - See Note 3

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,320,004)	\$0	(\$1,320,004)
(210,702)	0	(210,702)
14,724	0	14,724
(74,033)	0	(74,033)
(146,431)	0	(146,431)
94,955	0	94,955
(403,139)	0	(403,139)
(1,120,868)	0	(1,120,868)
(52,762)	0	(52,762)
<u>(3,218,260)</u>	<u>0</u>	<u>(3,218,260)</u>
0	71,296	71,296
0	845,813	845,813
<u>0</u>	<u>917,109</u>	<u>917,109</u>
<u>(3,218,260)</u>	<u>917,109</u>	<u>(2,301,151)</u>
452,573	0	452,573
2,110,458	0	2,110,458
151,653	0	151,653
536,904	0	536,904
31,041	0	31,041
30,923	0	30,923
99,360	4,071	103,431
<u>3,412,912</u>	<u>4,071</u>	<u>3,416,983</u>
<u>(3,178)</u>	<u>3,178</u>	<u>0</u>
191,474	924,358	1,115,832
<u>7,510,923</u>	<u>4,523,953</u>	<u>12,034,876</u>
<u>\$7,702,397</u>	<u>\$5,448,311</u>	<u>\$13,150,708</u>

City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2003

	General	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$578,459	\$31,922	\$1,209,874	\$1,820,255
Accounts Receivable	94,526	0	0	94,526
Due from Other Governments	257,301	134,229	228,750	620,280
Municipal Income Taxes Receivable	564,068	0	0	564,068
Other Local Taxes Receivable	2,145	0	0	2,145
Interfund Receivable	44,054	0	3,990	48,044
Prepaid Items	35,168	4,090	0	39,258
Materials and Supplies Inventory	20,313	14,544	0	34,857
Property Taxes Receivable	470,443	0	0	470,443
<u>Restricted Assets</u>				
Equity in Pooled Cash and Cash Equivalents	12,104	0	0	12,104
Notes Receivable	0	0	331,070	331,070
Special Assessments Receivable	0	0	376,203	376,203
Total Assets	\$2,078,581	\$184,785	\$2,149,887	\$4,413,253
<u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accrued Wages Payable	\$71,791	\$15,876	\$1,832	\$89,499
Accounts Payable	45,310	3,302	9,690	58,302
Contracts Payable	0	0	123,693	123,693
Retainage Payable	0	0	13,581	13,581
Due to Other Governments	75,332	22,598	455	98,385
Interfund Payable	0	0	8,990	8,990
Deferred Revenue	1,015,721	114,033	546,001	1,675,755
Total Liabilities	1,208,154	155,809	704,242	2,068,205
<u>Fund Balance</u>				
Reserved for Unclaimed Monies	12,104	0	0	12,104
Reserved for Notes Receivable	0	0	306,386	306,386
Reserved for Encumbrances	17,108	2,797	42,428	62,333
<u>Unreserved, Reported in</u>				
General Fund	841,215	0	0	841,215
Special Revenue Funds	0	26,179	544,286	570,465
Debt Service Funds	0	0	50,595	50,595
Capital Projects Funds	0	0	501,950	501,950
Total Fund Balance	870,427	28,976	1,445,645	2,345,048
Total Liabilities and Fund Balance	\$2,078,581	\$184,785	\$2,149,887	\$4,413,253

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2003

Total Governmental Fund Balance \$2,345,048

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,632,253

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

Accounts Receivable	79,875	
Due from Other Governments	475,839	
Municipal Income Taxes Receivable	273,246	
Other Local Taxes Receivable	149	
Property Taxes Receivable	12,119	
Special Assessments Receivable	376,203	
		1,217,431

An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activities. 40,822

Due to other governments includes contractually required pension contributions not expected to be paid with available expendable financial resources and, therefore, not reported in the funds. (49,808)

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

Accrued Interest Payable	(3,475)	
General Obligations Bonds Payable	(934,912)	
Special Assessment Bonds Payable	(208,795)	
Capital Leases Payable	(68,773)	
Compensated Absences Payable	(110,467)	
		(1,326,422)

An internal service fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets. (156,927)

Net Assets of Governmental Activities \$7,702,397

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Maintenance	Other Governmental	Total Governmental Funds
<u>Revenues</u>				
Property Taxes	\$452,042	\$0	\$0	\$452,042
Municipal Income Taxes	2,032,104	0	0	2,032,104
Other Local Taxes	153,355	0	19,651	173,006
Special Assessments	0	0	33,960	33,960
Charges for Services	442,012	0	450	442,462
Fees, Licenses, and Permits	36,395	0	0	36,395
Fines and Forfeitures	14,771	0	865	15,636
Intergovernmental	562,651	276,165	391,944	1,230,760
Interest	16,192	1,532	23,718	41,442
Other	120,976	14,214	43,255	178,445
Total Revenues	3,830,498	291,911	513,843	4,636,252
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,314,066	0	52,893	1,366,959
Fire	152,190	0	0	152,190
Ambulance	117,559	0	0	117,559
Public Health	208,238	0	0	208,238
Leisure Time Activities	219,322	0	0	219,322
Community Environment	7,033	0	162,659	169,692
Transportation	0	559,707	229,219	788,926
General Government	1,127,108	0	0	1,127,108
Other	0	0	1,193	1,193
Capital Outlay	0	0	171,579	171,579
Debt Service:				
Principal Retirement	12,128	5,000	207,161	224,289
Interest and Fiscal Charges	3,154	0	50,064	53,218
Total Expenditures	3,160,798	564,707	874,768	4,600,273
Excess of Revenues Over (Under) Expenditures	669,700	(272,796)	(360,925)	35,979
<u>Other Financing Sources (Uses)</u>				
Transfers In	110,904	275,000	571,758	957,662
Transfers Out	(683,615)	0	(267,047)	(950,662)
Total Other Financing Sources (Uses)	(572,711)	275,000	304,711	7,000
Change in Fund Balance	96,989	2,204	(56,214)	42,979
Fund Balance Beginning of Year - Restated (Note 3)	773,438	26,772	1,501,859	2,302,069
Fund Balance End of Year	\$870,427	\$28,976	\$1,445,645	\$2,345,048

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2003

Change in Fund Balance - Total Governmental Funds \$42,979

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

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

Capital Outlay	175,079	
Depreciation	(454,022)	
		(278,943)

Capital assets removed from the capital asset account on the statement of net assets results in a loss on disposal of capital assets on the statement of activities. (2,882)

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

Property Taxes	531	
Municipal Income Taxes	78,354	
Other Local Taxes	(1,983)	
Special Assessments	3,574	
Charges for Services	(9,396)	
Fees, Licenses, and Permits	(495)	
Intergovernmental	125,002	
Miscellaneous	(13,202)	
		182,385

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

General Obligation Bonds Payable	166,956	
Special Assessment Bonds Payable	18,653	
Capital Leases Payable	38,680	
		224,289

Interest is reported as an expenditure when due in the governmental funds, but is accrued on outstanding debt on the statement of net assets. 456

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

Due to Other Governments	30,657	
Compensated Absences Payable	3,847	
		34,504

The internal service fund used by management to charge the cost of health insurance services to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year. (11,314)

Change in Net Assets of Governmental Activities \$191,474

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$421,000	\$421,000	\$452,042	\$31,042
Municipal Income Taxes	2,164,000	2,164,000	2,059,426	(104,574)
Other Local Taxes	202,186	202,186	153,221	(48,965)
Charges for Services	416,443	489,546	439,298	(50,248)
Fees, Licenses, and Permits	42,551	35,767	36,395	628
Fines and Forfeitures	19,606	17,352	14,635	(2,717)
Intergovernmental	688,046	688,047	533,715	(154,332)
Interest	20,832	20,832	16,295	(4,537)
Other	66,516	82,450	120,976	38,526
Total Revenues	4,041,180	4,121,180	3,826,003	(295,177)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,273,399	1,268,399	1,296,580	(28,181)
Fire	126,409	126,409	150,517	(24,108)
Ambulance	121,495	121,495	114,638	6,857
Public Health	222,771	222,771	206,968	15,803
Leisure Time Activities	257,493	257,493	224,926	32,567
Community Environment	7,067	7,067	7,141	(74)
General Government	1,288,080	1,280,080	1,111,221	168,859
Debt Service:				
Principal Retirement	0	4,055	4,055	0
Interest and Fiscal Charges	0	3,945	3,154	791
Total Expenditures	3,296,714	3,291,714	3,119,200	172,514
Excess of Revenues Over Expenditures	744,466	829,466	706,803	(122,663)
<u>Other Financing Sources (Uses)</u>				
Advances Out	0	(5,000)	(5,000)	0
Transfers In	424,820	344,820	103,904	(240,916)
Transfers Out	(720,000)	(725,069)	(683,615)	41,454
Total Other Financing Sources (Uses)	(295,180)	(385,249)	(584,711)	(199,462)
Change in Fund Balance	449,286	444,217	122,092	(322,125)
Fund Balance Beginning of Year	440,453	440,453	440,453	0
Prior Year Encumbrances Appropriated	36,316	36,316	36,316	0
Fund Balance End of Year	\$926,055	\$920,986	\$598,861	(\$322,125)

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
Street Maintenance Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Intergovernmental	\$256,732	\$280,072	\$268,458	(\$11,614)
Interest	1,975	2,154	1,541	(613)
Other	4,937	5,386	14,214	8,828
Total Revenues	263,644	287,612	284,213	(3,399)
<u>Expenditures</u>				
Current:				
Transportation	598,928	598,928	554,708	44,220
Excess of Revenues Under Expenditures	(335,284)	(311,316)	(270,495)	40,821
<u>Other Financing Sources</u>				
Transfers In	286,355	312,388	275,000	(37,388)
Change in Fund Balance	(48,929)	1,072	4,505	3,433
Fund Balance Beginning of Year	8,476	8,476	8,476	0
Prior Year Encumbrances Appropriated	15,228	15,228	15,228	0
Fund Balance (Deficit) End of Year	(\$25,225)	\$24,776	\$28,209	\$3,433

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$464,769	\$372,901	\$837,670	\$0
Accounts Receivable	181,677	227,304	408,981	0
Due from Other Governments	0	480,455	480,455	0
Prepaid Items	6,738	1,858	8,596	0
Materials and Supplies Inventory	20,668	5,266	25,934	0
Total Current Assets	673,852	1,087,784	1,761,636	0
<u>Non-Current Assets</u>				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	35,562	0	35,562	0
Nondepreciable Capital Assets	12,552	7,402,047	7,414,599	0
Depreciable Capital Assets, Net	1,824,031	1,290,870	3,114,901	0
Total Non-Current Assets	1,872,145	8,692,917	10,565,062	0
Total Assets	2,545,997	9,780,701	12,326,698	0
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	11,367	22,705	34,072	0
Accounts Payable	7,966	20,888	28,854	0
Contracts Payable	0	487,892	487,892	0
Retainage Payable	0	352,744	352,744	0
Due to Other Governments	15,691	31,329	47,020	0
Interfund Payable	0	0	0	39,054
Accrued Interest Payable	30	412	442	0
Claims Payable	0	0	0	117,873
General Obligation Bonds Payable	2,396	32,742	35,138	0
OWDA Loans Payable	42,602	0	42,602	0
OPWC Loans Payable	0	1,400	1,400	0
Compensated Absences Payable	6,906	15,695	22,601	0
Total Current Liabilities	86,958	965,807	1,052,765	156,927
<u>Non-Current Liabilities</u>				
Liabilities Payable from Restricted Assets				
Deposits Held and Due to Others	35,562	0	35,562	0
General Obligation Bonds Payable	10,279	140,484	150,763	0
OWDA Loans Payable	868,255	4,659,168	5,527,423	0
OPWC Loans Payable	0	24,500	24,500	0
Compensated Absences Payable	12,686	33,866	46,552	0
Total Non-Current Liabilities	926,782	4,858,018	5,784,800	0
Total Liabilities	1,013,740	5,823,825	6,837,565	156,927
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	913,051	3,834,623	4,747,674	0
Unrestricted	619,206	122,253	741,459	(156,927)
Total Net Assets	\$1,532,257	\$3,956,876	5,489,133	(\$156,927)

Net assets reported for business-type activities on the statement of net assets are different because they include a proportionate share of the balance of the internal service fund.

(40,822)

Net assets of business-type activities

\$5,448,311

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities		Total Enterprise Funds	Governmental Activity
	Water	Sewer		Internal Service Fund
<u>Operating Revenues</u>				
Charges for Services	\$1,203,654	\$1,314,698	\$2,518,352	\$497,949
Other	1,888	2,183	4,071	2,258
Total Operating Revenues	<u>1,205,542</u>	<u>1,316,881</u>	<u>2,522,423</u>	<u>500,207</u>
<u>Operating Expenses</u>				
Personal Services	300,072	589,876	889,948	0
Contractual Services	52,750	137,074	189,824	77,056
Materials and Supplies	655,015	143,723	798,738	0
Bad Debt	12,499	15,638	28,137	0
Claims	0	0	0	437,797
Other	40,000	40,000	80,000	754
Depreciation	43,859	34,766	78,625	0
Total Operating Expenses	<u>1,104,195</u>	<u>961,077</u>	<u>2,065,272</u>	<u>515,607</u>
Operating Income (Loss)	<u>101,347</u>	<u>355,804</u>	<u>457,151</u>	<u>(15,400)</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue	0	2,989	2,989	82
Interest Expense	(26,601)	(65,036)	(91,637)	0
Total Non-Operating Revenues (Expenses)	<u>(26,601)</u>	<u>(62,047)</u>	<u>(88,648)</u>	<u>82</u>
Income before Capital Contributions and Transfers	74,746	293,757	368,503	(15,318)
Capital Contributions	0	566,859	566,859	0
Transfers Out	0	(7,000)	(7,000)	0
Change in Net Assets	74,746	853,616	928,362	(15,318)
Net Assets (Deficit) Beginning of Year - Restated (Note 3)	<u>1,457,511</u>	<u>3,103,260</u>		<u>(141,609)</u>
Net Assets (Deficit) End of Year	<u>\$1,532,257</u>	<u>\$3,956,876</u>		<u>(\$156,927)</u>
The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net loss of the internal service fund.			<u>(4,004)</u>	
Change in net assets of business-type activities			<u>\$924,358</u>	

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Business-Type Activities			Governmental Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,179,989	\$1,290,468	\$2,470,457	\$0
Cash Received from Transactions with Other Funds	0	0	0	497,949
Cash Received from Other Revenues	2,888	2,183	5,071	2,258
Cash Payments for Personal Services	(301,231)	(583,527)	(884,758)	0
Cash Payments for Contractual Services	(50,957)	(202,835)	(253,792)	(77,056)
Cash Payments to Vendors	(643,310)	(158,835)	(802,145)	0
Cash Payments for Claims	0	0	0	(412,457)
Cash Payments for Other Expenses	(40,000)	(40,000)	(80,000)	(754)
Net Cash Provided by Operating Activities	147,379	307,454	454,833	9,940
<u>Cash Flows from Noncapital Financing Activities</u>				
Cash Received from Other Funds	0	0	0	(10,022)
Transfers Out	0	(7,000)	(7,000)	0
Net Cash Provided by (Used for) Noncapital Financing Activities	0	(7,000)	(7,000)	(10,022)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on General Obligation Bonds	(2,325)	(31,774)	(34,099)	0
Principal Paid on OWDA Loans	(21,483)	0	(21,483)	0
Principal Paid on OPWC Loans	0	(1,400)	(1,400)	0
Interest Paid on General Obligation Bonds	(561)	(6,054)	(6,615)	0
Interest Paid on OWDA Loans	(26,178)	(59,252)	(85,430)	0
Proceeds of OWDA Loans	0	4,178,713	4,178,713	0
Acquisition of Capital Assets	0	(5,809,928)	(5,809,928)	0
Capital Contributions	0	904,532	904,532	0
Net Cash Used for Capital and Related Financing Activities	(50,547)	(825,163)	(875,710)	0
<u>Cash Flows from Investing Activities</u>				
Interest	0	2,989	2,989	82
Net Increase (Decrease) in Cash and Cash Equivalents	96,832	(521,720)	(424,888)	0
Cash and Cash Equivalents Beginning of Year	403,499	894,621	1,298,120	0
Cash and Cash Equivalents End of Year	\$500,331	\$372,901	\$873,232	\$0

(continued)

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003
(continued)

	Business-Type Activities			Governmental Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>				
Operating Income (Loss)	\$101,347	\$355,804	\$457,151	(\$15,400)
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</u>				
Depreciation	43,859	34,766	78,625	0
Provision for Uncollectible Accounts	12,499	15,638	28,137	0
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(22,665)	(24,230)	(46,895)	0
(Increase) Decrease in Prepaid Items	4,379	(15)	4,364	0
Increase (Decrease) in Materials and Supplies Inventory	(2,554)	676	(1,878)	0
Increase in Accrued Wages Payable	1,524	2,170	3,694	0
Increase (Decrease) in Accounts Payable	3,319	(2,783)	536	0
Decrease in Contracts Payable	0	(258,816)	(258,816)	0
Increase in Retainage Payable	0	180,100	180,100	0
Increase in Due to Other Governments	4,158	7,297	11,455	0
Increase in Claims Payable	0	0	0	25,340
Decrease in Compensated Absences Payable	(6,887)	(3,153)	(10,040)	0
Increase in Deposits Held and Due to Others	8,400	0	8,400	0
Net Cash Provided by Operating Activities	<u>\$147,379</u>	<u>\$307,454</u>	<u>\$454,833</u>	<u>\$9,940</u>

Non-Cash Capital Financing Activities:

During 2003, the Main Throughfare special revenue fund constructed capital assets and donated them to the Sewer enterprise fund, in the amount of \$10,178.

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2003

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$9,782</u></u>
--	-----------------------

Liabilities

Undistributed Assets	<u><u>\$9,782</u></u>
----------------------	-----------------------

See Accompanying Notes to the Basic Financial Statements

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

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Port Clinton in 2003.

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 20 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Clinton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City does not apply Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, to its business-type activities or to its enterprise funds. Following are the more significant of the City's accounting policies.

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2003. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds to secure proper handling of fire damaged structures.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2003, but were levied to finance 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

E. Budgetary Process

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

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

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

F. Cash and Investments

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

During fiscal year 2003, investments were limited to City of Port Clinton Bonds, repurchase agreements, and investments in the State Treasury Asset Reserve of Ohio (STAR Ohio). 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, 2003.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2003 was \$16,192, which includes \$11,865 assigned from other City funds.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

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

J. Capital Assets

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	10-15 years
Vehicles	6 years
Streets	20 - 40 years
Water, Sewer, and Storm Sewer Lines	50 years

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

N. Net Assets

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

O. Fund Balance Reserves

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

P. Operating Revenues and Expenses

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

Q. Interfund Transactions

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

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

R. Extraordinary and Special Items

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

S. Estimates

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

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND EQUITY

For 2003, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences", and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements". At December 31, 2002, there was no significant effect on fund balances as a result of implementing GASB Statements Nos. 37, 38, 41, and GASB Interpretation No. 6.

GASB Statement No. 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The government-wide financial statements split the City's programs between governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the full accrual basis of accounting. Except for the restatement explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from the prior year.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the fund, organization, or program structure that the City uses for its legally adopted budget when significant budgetary perspective differences result in the City not being able to present budgetary comparisons for the General Fund and each major special revenue fund. The implementation of this statement did not have any effect on the City's financial statements for 2003.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

For 2003, the City has increased the threshold amount for capitalizing assets. The threshold amount was increased from \$500 to \$10,000.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of governmental activities is also presented:

	General	Street Maintenance	Other Governmental	Total Governmental Activities
Fund Balance December 31, 2002	\$754,892	\$25,848	\$1,501,859	\$2,282,599
GASB Statement No. 34 Adjustment:				
Change in Fund Structure	11,922			11,922
GASB Interpretation No. 6 Adjustment:				
Compensated Absences	6,624	924		7,548
Adjusted Fund Balance	<u>\$773,438</u>	<u>\$26,772</u>	<u>\$1,501,859</u>	2,302,069
GASB Statement No. 34 Adjustments:				
Accounts Receivable				102,968
Due from Other Governments				342,231
Municipal Income Taxes Receivable				194,892
Other Local Taxes Receivable				10,738
Property Taxes Receivable				11,588
Special Assessments Receivable				372,629
Capital Assets				5,914,078
Due to Other Governments				(80,465)
Accrued Interest Payable				(3,931)
General Obligation Bonds Payable				(1,101,868)
Special Assessment Bonds Payable				(227,448)
Capital Leases Payable				(107,453)
Compensated Absences Payable				(114,314)
Internal Service-Internal Balance				36,818
Internal Service-Governmental Portion				<u>(141,609)</u>
Governmental Activities Net Assets at December 31, 2002				<u>\$7,510,923</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The restatement of the business-type activities:

	Water	Sewer	Total Business-Type Activities
Fund Equity December 31, 2002	\$1,525,194	\$3,210,395	\$4,735,589
Change in Threshold:			
Capital Assets	(209,582)	(400,382)	(609,964)
Accumulated Depreciation	141,899	293,247	435,146
	\$1,457,511	\$3,103,260	4,560,771
Internal Service Fund - Internal Balance			(36,818)
Adjusted Net Assets December 31, 2002			\$4,523,953

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2003, the Internal Service Fund had deficit net assets, in the amount of \$156,927, 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 a 24 percent increase in premiums on January 1, 2003.

B. Compliance

The following accounts had expenditures plus encumbrances in excess of appropriations for the year ended December 31, 2003.

Fund/Program/Department	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund			
General Government			
New City Hall	\$57,685	\$63,197	\$5,512
Mayor	26,015	27,046	1,031
Auditor	111,201	113,329	2,128
County Deductions	34,100	34,627	527
Old City Hall	16,800	22,851	6,051
			(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

(Continued)

Fund/Program/Department	Appropriations	Expenditures Plus Encumbrances	Excess
General Fund (continued)			
Security of Persons and Property - Police	\$1,268,399	\$1,296,580	\$28,181
Security of Person and Property - Fire	126,409	150,517	24,108
Senior Center	4,850	5,321	471
Planning Commission	7,067	7,141	74

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

Change in Fund Balance	
	Street Maintenance
GAAP Basis	General
	\$96,989
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2002, Received in Cash 2003	368,296
	12,489
	(Continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Change in Fund Balance (Continued)		
Expenditure Accruals:		
Accrued 2002, Paid in Cash 2003	(117,217)	(24,909)
Accrued 2003, Not Yet Paid in Cash	201,253	41,776
Cash Adjustments:		
Unrecorded Activity 2002	1,606	116
Unrecorded Activity 2003	185	(107)
Prepaid Items	(8,813)	(539)
Materials and Supplies Inventory	(2,684)	(2,723)
Advances Out	(5,000)	0
Transfer In	(7,000)	0
Encumbrances Outstanding at Year End (Budget Basis)	(30,941)	(3,606)
Budget Basis	\$122,092	\$4,505

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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 City Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

At year end, the City had \$3,396 in undeposited cash on hand which is included as part of “Equity in Pooled Cash and Cash Equivalents”.

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

At year end, the carrying amount of the City’s deposits was \$274,144 and the bank balance was \$358,071. Of the bank balance, \$107,645 was covered by the federal depository insurance and \$250,426 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	\$0	\$613,859	\$613,859	\$613,874
City of Port Clinton Bonds	54,638	0	54,638	54,638
	\$54,638	\$613,859		
STAR Ohio			1,769,336	1,769,336
			\$2,437,833	\$2,437,848

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

	Cash and Cash Equivalents/Deposits	Investments
GASB Statement No. 9	\$2,715,373	\$0
Cash on Hand	(3,396)	0
Investments:		
Repurchase Agreements	(613,859)	613,859
City of Port Clinton Bonds	(54,638)	54,638
STAR Ohio	(1,769,336)	1,769,336
GASB Statement No. 3	\$274,144	\$2,437,833

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 7 - RECEIVABLES

Receivables at December 31, 2003, consisted of accounts (billings for user charged services, including unbilled utility services); intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; and special assessments. Notes receivable, in the amount of \$306,386, will not be received within one year. Special assessments receivable, in the amount of \$291,015, will not be received within one year. At December 31, 2003, the amount of delinquent special assessments was \$60,494.

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$194,176	\$242,942	\$437,118
Less Allowance for Uncollectibles	12,499	15,638	28,137
Net Accounts Receivable	\$181,677	\$227,304	\$408,981

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$524
Personal Property Exemption	4,143
Local Government	208,515
Beer and Liquor Permits	10,044
Cigarette Tax	36
Estate Tax	33,605
Municipal Court Fines	434
Total General Fund	257,301
Street Maintenance	
Gasoline Tax	90,064
Motor Vehicle License Tax	44,165
Total Street Maintenance	134,229
Total Major Funds	391,530
	(Continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

(Continued)	Amount
Nonmajor Funds	
Main Thoroughfare	
Permissive Tax	9,859
Ottawa County	151,960
Total Main Thoroughfare	161,819
State Highway	
Gasoline Tax	\$7,289
Motor Vehicle License Tax	3,581
Total State Highway	10,870
COPS in Schools	
COPS Grant	3,472
CDBG	
CDBG Grant	52,589
Total Nonmajor Funds	228,750
Total Governmental Activities	\$620,280
Business-Type Activities	
Sewer	
Ohio Water Development Authority	\$480,455

NOTE 8 - MUNICIPAL INCOME TAXES

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. Real property taxes received in 2003 were levied after October 1, 2002, on the assessed values as of January 1, 2002, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2003 represent the collection of 2002 taxes. Public utility real and tangible personal property taxes received in 2003 became a lien on December 31, 2001, were levied after October 1, 2002, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. Tangible personal property taxes received in 2003 were levied after October 1, 2002, on the true value as of December 31, 2002. Tangible personal property is currently assessed at 25 percent of true value for capital assets and 23 percent for inventory. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, the first payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents real property, public utility property, and tangible personal property taxes which were measurable as of December 31, 2003, 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 2003 operations.

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

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

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$77,748,580
Commercial/Industrial	27,650,360
Public Utility Real	14,800
Public Utility Personal	6,827,760
Tangible Personal	8,182,290
Total	\$120,423,790

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 10 - CAPITAL ASSETS

- A. The capital asset balances of the governmental activities and business-type activities have been restated due to the reporting of infrastructure in governmental activities and due to an increase in the capital asset threshold from \$500 to \$10,000 and the reporting of errors and omissions in the prior year in governmental activities and business-type activities.

	<u>Balance December 31, 2002</u>	<u>Adjustments</u>	<u>Restated Balance December 31, 2002</u>
Governmental Activities:			
Nondepreciable Capital Assets			
Land	\$537,082	(\$20,600)	\$516,482
Depreciable Capital Assets			
Land Improvements	30,187	(9,400)	20,787
Buildings and Improvements	1,581,621	(62,590)	1,519,031
Furniture, Fixtures, and Equipment	1,536,079	(659,442)	876,637
Vehicles	1,451,987	(60,609)	1,391,378
Streets		7,642,505	7,642,505
Total Depreciable Capital Assets	<u>4,599,874</u>	<u>6,850,464</u>	<u>11,450,338</u>
Less Accumulated Depreciation for			
Land Improvements		(520)	(520)
Buildings and Improvements		(429,018)	(429,018)
Furniture, Fixtures, and Equipment		(459,515)	(459,515)
Vehicles		(960,311)	(960,311)
Streets		(4,203,378)	(4,203,378)
Total Accumulated Depreciation		<u>(6,052,742)</u>	<u>(6,052,742)</u>
Total Depreciable Capital Assets, Net	<u>4,599,874</u>	<u>797,722</u>	<u>5,397,596</u>
Governmental Activities Capital Assets, Net	<u>\$5,136,956</u>	<u>\$777,122</u>	<u>\$5,914,078</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Balance December 31, 2002	Adjustments	Restated Balance December 31, 2002
Business-Type Activities:			
Nondepreciable Capital Assets			
Land	\$21,312	(\$8,760)	\$12,552
Construction in Progress	2,325,696		2,325,696
Total Nondepreciable Capital Assets	<u>2,347,008</u>	<u>(8,760)</u>	<u>2,338,248</u>
Depreciable Capital Assets			
Land Improvements	13,965	0	13,965
Buildings and Improvements	2,241,500	(16,060)	2,225,440
Furniture, Fixtures, and Equipment	744,372	(499,572)	244,800
Vehicles	109,699	(32,673)	77,026
Water, Sewer, and Storm Sewer Lines	2,435,612	(52,899)	2,382,713
Total Depreciable Capital Assets	<u>5,545,148</u>	<u>(601,204)</u>	<u>4,943,944</u>
Less Accumulated Depreciation for			
Land Improvements	(1,746)		(1,746)
Buildings and Improvements	(1,942,906)	25,414	(1,917,492)
Furniture, Fixtures, and Equipment	(555,339)	367,606	(187,733)
Vehicles	(99,802)	25,965	(73,837)
Water, Sewer, and Storm Sewer Lines	(329,526)	16,161	(313,365)
Total Accumulated Depreciation	<u>(2,929,319)</u>	<u>435,146</u>	<u>(2,494,173)</u>
Total Depreciable Capital Assets, Net	<u>2,615,829</u>	<u>(166,058)</u>	<u>2,449,771</u>
Business-Type Activities Capital Assets, Net	<u>\$4,962,837</u>	<u>(\$174,818)</u>	<u>\$4,788,019</u>

B. Capital asset activity for the year ended December 31, 2003, was as follows:

	Restated Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$516,482	\$0	\$0	\$516,482

(Continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

(Continued)

Depreciable Capital Assets				
Land Improvements	20,787	0	0	20,787
Buildings and Improvements	1,519,031	0	0	1,519,031
Furniture, Fixtures, and Equipment	876,637	30,776	0	907,413
Vehicles	1,391,378	27,525	(23,847)	1,395,056
Streets	7,642,505	116,778	0	7,759,283
Total Depreciable Capital Assets	<u>11,450,338</u>	<u>175,079</u>	<u>(23,847)</u>	<u>11,601,570</u>
Less Accumulated Depreciation for:				
Land Improvements	(520)	(1,039)	0	(1,559)
Buildings and Improvements	(429,018)	(31,483)	0	(460,501)
Furniture, Fixtures, and Equipment	(459,515)	(55,059)	0	(514,574)
Vehicles	(960,311)	(175,378)	20,965	(1,114,724)
Streets	<u>(4,203,378)</u>	<u>(191,063)</u>	<u>0</u>	<u>(4,394,441)</u>
Total Accumulated Depreciation	<u>(6,052,742)</u>	<u>(454,022)</u>	<u>20,965</u>	<u>(6,485,799)</u>
Total Depreciable Capital Assets, Net	<u>5,397,596</u>	<u>(278,943)</u>	<u>(2,882)</u>	<u>5,115,771</u>
Governmental Activities Capital Assets, Net	<u>\$5,914,078</u>	<u>(\$278,943)</u>	<u>(\$2,882)</u>	<u>\$5,632,253</u>

	Restated Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552	\$0	\$0	\$12,552
Construction in Progress	2,325,696		(498,618)	7,402,047
		<u>5,574,969</u>		
Total Nondepreciable Capital Assets	<u>2,338,248</u>	<u>5,574,969</u>	<u>(498,618)</u>	<u>7,414,599</u>
Depreciable Capital Assets				
Land Improvements	13,965	0	0	13,965
Buildings and Improvements	2,225,440	733,577	0	2,959,017

(Continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

(Continued)

Furniture, Fixtures, and Equipment	244,800	0	0	244,800
Vehicles	77,026	0	0	77,026
Water, Sewer, and Storm Sewer Lines	2,382,713	10,178	0	2,392,891
Total Depreciable Capital Assets	4,943,944	743,755	0	5,687,699
Less Accumulated Depreciation for:				
Land Improvements	(\$1,746)	(\$698)	\$0	(\$2,444)
Buildings and Improvements	(1,917,492)	(19,718)	0	(1,937,210)
Furniture, Fixtures, and Equipment	(187,733)	(8,427)	0	(196,160)
Vehicles	(73,837)	(2,126)	0	(75,963)
Water, Sewer, and Storm Sewer Lines	(313,365)	(47,656)	0	(361,021)
Total Accumulated Depreciation	(2,494,173)	(78,625)	0	(2,572,798)
Total Depreciable Capital Assets, Net	2,449,771	665,130	0	3,114,901
Business-Type Activities Capital Assets, Net	\$4,788,019	\$6,240,099	(\$498,618)	\$10,529,500

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$36,235
Security of Persons and Property - Fire	121,287
Security of Persons and Property - Ambulance	11,731
Public Health	16,302
Leisure Time Activities	12,989
Transportation	239,043
General Government	16,435
Total Depreciation Expense - Governmental Activities	\$454,022

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2003, the General Fund had an interfund receivable, in the amount of \$44,054; \$5,000 from other governmental funds to provide cash flow resources until the receipt of grant monies and \$39,054 from the Internal Service Fund for a loan to offset the deficit cash balance at year end.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Other governmental funds had an interfund receivable, in the amount of \$3,990 for services provided.

These amounts are expected to be repaid within one year.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003, the City contracted with the Ohio Government Risk Management Plan, an insurance pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$11,301,329	\$1,000
Special Property	1,068,052	1,000
General Liability		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Medical Expense		
Per Person	10,000	0
Aggregate	50,000	0
Employer's Liability		
Occurrence	2,000,000	0
Aggregate	2,000,000	0
Employee Benefits		
Occurrence	1,000,000	0
Aggregate	3,000,000	0
Public Officials Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Law Enforcement Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Medical Expense		
Occurrence	10,000	5,000
Aggregate	50,000	5,000
Auto Liability	2,000,000	250/500

There has been no significant reduction in insurance coverage from 2002, 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-

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

and current-year claims. For 2003, 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, 2003, the City had no monies on deposit with OME-RESA.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$35,000 per individual. Claims in excess of \$75,000 are covered by stop-loss insurance. Settled claims have not exceeded the stop-loss coverage for the last three years.

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, 2003, is estimated by the third party administrator at \$117,873.

The changes in the claims liability for 2003 and 2002 were as follows:

Year	Beginning Balance	Claims and Changes in Estimates	Claims Payments	Ending Balance
2003	\$92,533	\$437,797	\$412,457	\$117,873
2002	68,211	449,048	424,726	92,533

For 2003, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2003, the City had contractual commitments as follows:

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Company	Project	Amount Remaining on Contract
Mosser Construction	WWTP	\$1,192,522
7-L	West Perry/Jackson Street	137,198
Brunkhurst Engineering	Marina Project-Jefferson Street	2,200
Ed Burdue & Company	Jefferson Street Force Main	13,000
Floyd Browne	Sewer/Water Rates Study	8,265
G.G.J. Engineer	WWTP Grant/Loan Assistance	6,384
G.G.J. Engineer	Jefferson Street Force Main	3,500
Hull & Associates	Consultants-Clean Ohio Funding	4,000
Don Waggoner Engineer	West Perry/Jackson Street Improvement	3,812
Helm & Associates	Stand by Generator	209,200

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

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

For the year ended December 31, 2003, members of all three plans were required to contribute 8.5 percent of their annual covered salary to fund pension obligations. The City's contribution rate for pension benefits for 2003 was 8.55 percent. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$154,011, \$149,949, and \$167,500, respectively; 73 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$42,166, is recorded as a liability. Contributions to the member-directed plan for 2003 were \$1,351 made by the City and \$848 made by plan members.

B. Ohio Police and Fire Pension Fund

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

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 11.75 percent for police officers. Contributions are authorized by State statute. The City's contributions to the OPF for the years ended December 31, 2003, 2002, and 2001 were \$79,707, \$75,615, and \$73,893, respectively; 72 percent has been contributed for 2003 and 100 percent has been contributed for 2002 and 2001. The unpaid contribution for 2003, in the amount of \$21,983, is recorded as a liability.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by OPERS is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 employer contribution rate was 13.55 percent of covered payroll; 5.00 percent was the portion used to fund health care.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS' latest actuarial review performed as of December 31, 2002, include a rate of return on investments of 8 percent, an annual increase in active employee total payroll of 4 percent compounded annually (assuming no change in the number of active employees), and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4 percent annually.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$90,855. The actual contribution and the actuarial required contribution amounts are the same. OPERS' net assets available for the payment of benefits at December 31, 2002 (the latest information available), was \$10 billion. The actuarial accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the OPERS Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. The Choices Plan will incorporate a cafeteria approach offering a broader range of health care options. The Choices Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Choices Plan will also offer a spending account feature enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a medical spending account.

B. Ohio Police and Fire Pension Fund

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

The health care coverage provided by OPF is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from OPF shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate for police is 19.5 percent of covered payroll; 7.75 percent was applied to the postemployment health care program during 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$52,573 for police. The OPF's total health care expense for the year ended December 31, 2002 (the latest information available), was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OPF participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

NOTE 16 - COMPENSATED ABSENCES

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

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

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

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2003, was as follows:

	Interest Rate	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$84,260)	6.22%	\$50,868	\$0	\$4,055	\$46,813	\$4,070
2002 Various Purpose (Original Amount \$1,271,000)	2.855	1,051,000	0	162,901	888,099	167,862
Total General Obligation Bonds		1,101,868	0	166,956	934,912	171,932
<u>Special Assessment Bonds</u>						
1990 South Madison Street (Original Amount \$132,500)	7.4	56,000	0	7,000	49,000	7,000
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	87,132	0	6,945	80,187	6,930
1995 Fulton Street (Original Amount \$48,530)	6.5	34,000	0	2,000	32,000	2,000
2000 Downtown Improvement (Original Amount \$54,638)	5.75	50,316	0	2,708	47,608	2,863
Total Special Assessment Bonds		227,448	0	18,653	208,795	18,793
<u>Other Long-Term Obligations</u>						
Capital Leases Payable	5.73	107,453	0	38,680	68,773	40,147
Compensated Absences Payable		114,314	16,082	19,929	110,467	45,634
Total Governmental Activities		\$1,551,083	\$16,082	\$244,218	\$1,322,947	\$276,506

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Interest Rate	Balance December 31, 2002	Additions	Reductions	Balance December 31, 2003	Due Within One Year
<u>Business-Type Activities</u>						
2002 General Obligation Bonds (Original Amount \$220,000)	2.855%	\$220,000	\$0	\$34,099	\$185,901	\$35,138
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54	932,340	0	21,483	910,857	42,602
2003 OWDA Loans Payable (Original Amount \$4,659,168)	3.89	0	4,659,168	0	4,659,168	0
2002 OPWC Loans Payable (Original Amount \$28,000)	0	27,300	0	1,400	25,900	1,400
Other Long-Term Obligations						
Compensated Absences Payable		79,193	5,726	15,766	69,153	22,601
Total Business-Type Activities		<u>\$1,258,833</u>	<u>\$4,664,894</u>	<u>\$72,748</u>	<u>\$5,850,979</u>	<u>\$101,741</u>

General Obligation Bonds

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

Special Assessment Bonds

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

Capital Leases Payable

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

Compensated Absences

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

OWDA Loans Payable

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

OPWC Loans Payable

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

The City's legal debt margin was \$11,714,631 at December 31, 2003.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2003, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2004	\$171,917	\$28,259	\$18,808	\$13,415
2005	176,052	23,215	18,973	12,171
2006	181,840	18,052	19,147	10,919
2007	186,802	12,724	19,331	9,657
2008	191,763	7,257	20,526	8,383
2009 to 2013	22,115	5,487	88,127	22,585
2014 to 2016	4,423	274	23,883	1,951
Total	\$934,912	\$95,268	\$208,795	\$79,082

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, from the business-type activities were as follows:

Year	General Obligation Bonds		OWDA Loans		OPWC Loans
	Principal	Interest	Principal	Interest	Principal
2004	\$35,138	\$5,307	\$42,602	\$58,348	\$700
2005	36,003	4,303	44,963	55,988	1,400
2006	37,215	3,277	47,453	53,497	1,400
2007	38,253	2,213	50,082	50,868	1,400
2008	39,292	1,121	52,857	48,093	1,400
2009 to 2013	0	0	311,591	193,159	7,000
2014 to 2018	0	0	361,309	91,571	7,000
2019 to 2022	0	0	0	0	5,600
Total	\$185,901	\$16,221	\$910,857	\$551,524	\$25,900

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and changes in fund balance for governmental funds. Principal payments in 2003 were \$38,680.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

	Governmental Activities
Property under Capital Lease	\$181,433
Less Accumulated Depreciation	(33,550)
Total	\$147,883

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, 2003.

	Governmental Activities	
	Principal	Interest
2004	\$40,147	\$3,191
2005	28,626	1,640
Total	\$68,773	\$4,831

NOTE 19 - INTERFUND TRANSFERS

During 2003, the General Fund made transfers to the Street Maintenance fund, in the amount of \$275,000, to subsidize activities of the fund. The General Fund also made transfers to other governmental funds, in the amount of \$408,615; \$36,115 as debt payments came due and \$372,500 to subsidize activities of the various funds.

Other governmental funds made transfers to the General Fund, in the amount of \$103,904, for CDBG monies no longer restricted to that purpose and to close out a fund. Other governmental funds also made transfers to other governmental funds, in the amount of \$163,143, as debt payments came due.

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

NOTE 20 - INSURANCE POOLS

A. Ohio Government Risk Management Plan

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2003

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

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

NOTE 21 - CONTINGENT LIABILITIES

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

NOTE 22 – SUBSEQUENT EVENTS

On March 10, 2005, the City issued \$500,000 of notes in anticipation of the issuance of bonds to pay the costs acquiring, remodeling, equipping, and otherwise improving a building to house the operations of the City's fire department.

Also, during the year 2004, the City contracted with the North Central EMS to take over the ambulance operations, billing and staffing.

This page is intentionally left blank.

City of Port Clinton
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2003

FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - States Program	AC-02-166-1	14.228	\$ 13,455
Home Investment Partnerships Program	AC-02-166-2	14.239	<u>145,976</u>
Total passed through Ohio Department of Development			159,431
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Surveys, Studies, Investigations, and Special Purpose Grants	n/a	66.606	1,134,704
U.S. DEPARTMENT OF JUSTICE			
Cops in School Grant	n/a	16.710	<u>33,028</u>
Total Federal Financial Assistance			<u>\$ 1,327,163</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS SCHEDULE.

City of Port Clinton
Notes to the Schedule of Federal Awards Expenditures
Fiscal Year Ended December 31, 2003

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

These loans are collateralized by mortgages on the property. At December 31, 2003, the gross amount of loans outstanding under this program was \$331,070.

NOTE C - MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

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

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

To the City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated March 21, 2005, wherein we noted the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and changed its capital assets threshold policy during 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-003.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. Our consideration of the internal

control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we do not believe the reportable condition described above is a material weakness. In a separate letter to the City's management dated March 21, 2005, we reported other matters involving internal control over financial reporting.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2003-001 and 2003-002. In a separate letter to the City's management dated March 21, 2005, we reported other related matters.

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



Betty Montgomery
Auditor of State

March 21, 2005



**Auditor of State
Betty Montgomery**

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

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

To the City Council:

Compliance

We have audited the compliance of the City of Port Clinton, Ottawa County, Ohio with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that is applicable to its major federal program for the year ended December 31, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2003. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to the management of the City in a separate letter dated March 21, 2005.

Internal Control Over Compliance

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

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

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



Betty Montgomery
Auditor of State

March 21, 2005

City of Port Clinton
 Schedule of Findings
 OMB Circular A -133 § .505
 December 31, 2003

1. SUMMARY OF AUDITOR'S RESULTS

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

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

FINDING NUMBER 2003-001

Finding For Recovery Repaid Under Audit

Ohio Revised Code § 9.39 states that all “public officials are liable for all public money received or collected by them or by their subordinates under color of office.” The Park Director’s work sheet of monies collected and attendees present for Sunday open gym on March 14, 2003 indicated that \$131 was collected. We found no evidence that this was receipted or deposited with the City.

FINDING NUMBER 2003-001
(Continued)

In accordance with the foregoing facts, and pursuant to Ohio Revised Code § 117.28, a Finding for Recovery for public money collected but not accounted for is hereby issued against Kenneth Gipe, former Parks and Recreation Director for the City of Port Clinton, in the amount of one hundred and thirty-one dollars (\$131), and in favor of the General Fund. On March 14, 2005 these monies were repaid to the City by Kenneth Gipe on personal check number 1262 for \$131 and recorded on receipt number 46554 dated March 15, 2005.

FINDING NUMBER 2003-002

Finding For Recovery Repaid Under Audit

On February 14, 2003, severance pay was paid to retired employee, Elmer Bradshaw, in the amount of \$13,440.28 with check number 44560. Due to a calculation error, the employee was reimbursed for 114 hours of vacation leave instead of 105.23 hours of vacation leave due him. He was overpaid for 8.77 hours at the hourly rate of \$21.49 which resulted in an overpayment of \$188.47.

In accordance with the foregoing facts, and pursuant to the Ohio Revised Code § 117.28, a Finding for Recovery for public money illegally expended is hereby issued against Elmer Bradshaw; Nancy O'Neal, City Auditor; and Ohio Government Risk Management Plan, her bonding company, jointly and severally, in the amount of \$188.47, in favor of the Water and Sewer Fund.

On March 15, 2004 these monies were repaid to the City by Elmer Bradshaw's personal check number 9320 and \$94.24 was receipted into the Water Fund and \$94.23 was receipted into the Sewer Fund. It was receipted on pay in number 44862 dated March 16, 2004.

FINDING NUMBER 2003-003

Reportable Condition

We noted the following deficiencies in the parks and recreation department:

1. The park director did not collect monies for various reasons from some of the sponsors during 2003.
2. The fee schedule provided to us for park and recreation fees for 2003 did not always agree with the fees charged. Also on the fee schedule was a fee for adult participants that were not residents. This fee was not collected in a majority of the cases.
3. The park director at times would request that gift cards rather than monies be given for payment and he would purchase items for the parks and recreation department. This procedure bypassed the normal procedure of depositing with the City Auditor and the expenditure approval process.
4. The date of the transactions was not always dates listed on the receipts written for monies collected at the park and recreation office.
5. The park director held checks for long periods of time before deposit and some eventually became stale, costing the City money.
6. Supporting documentation was not always presented for each activity or event. Items such as participant rosters, duplicate receipts, and gift card expenditure documentation were not located for audit purposes.

FINDING NUMBER 2003-003
(Continued)

This situation could allow errors or fraud to go undetected. To prevent asset loss or misappropriations from going undetected, we recommend the following:

1. All monies per the fee schedule should be collected prior to any event.
2. The fee schedule should be reviewed and approved by the park and recreation committee. The fees charged should be monitored by an appropriate individual from the committee for adherence to the approved schedule.
3. All monies received by the park and recreation department should be receipted in, appropriate receipt issued, and deposited with the City promptly. All expenditures for the parks and recreation department should be made by adhering to the City's approved budgetary/expenditure process.
4. All receipts should be written in full with the date, individual, amount, type of revenue, and event. Monies should then be deposited on a daily basis. A reconciliation and analysis of all events should be made after collection of fees is completed.
5. The City should adopt a policy for collecting monies on behalf of the City and the procedures for depositing these monies. Said policy should be shared with all employees who handle monies and the employee should initial policy indicating that they have read it.
6. A representative of the City Auditor's office should periodically review financial activity of the park and recreation department and determine that established policies and procedures are being followed. This should include determining that all supporting documents and receipts back up each activity.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
--

None.

City of Port Clinton
 Schedule of Prior Audit Findings
 December 31, 2003

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid;
2002-001	Revised Code § 5705.41(B) expenditure in excess of appropriation	No	Partially corrected. Reported in the management letter.



**Auditor of State
Betty Montgomery**

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

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED

APRIL 12, 2005