



Dave Yost • Auditor of State

**CITY OF PORT CLINTON
OTTAWA COUNTY**

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Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 2010, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3 to the basic financial statements, the City adopted Government Accounting Standards Board Statement 54, "Fund Balance Reporting and Governmental Fund Type Definitions".

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements taken as a whole. The schedule of federal awards expenditures provides additional information required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures is management's responsibility, and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This schedule was subject to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Dave Yost
Auditor of State

September 20, 2011

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

The discussion and analysis of the City of Port Clinton's (the City's) financial performance provides an overview of the City's financial activities for the year ended December 31, 2010. The intent of this discussion and analysis is to look at the City's financial performance as a whole.

HIGHLIGHTS

In total, the City's net assets increased \$3,434,929, or 16 percent. Governmental activities increased 4 percent and business-type activities increased 30 percent. The increase for business-type activities is due to an operating income in both the Water and Sewer enterprise funds as well as capital grants in excess of \$2.3 million for infrastructure improvements and continuing upgrades to the wastewater treatment plant.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2010. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

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, Water, and Sewer funds. While the City uses many funds to account for its financial transactions, these are the most significant.

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

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

Enterprise Funds - The City's enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting.

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

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

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2010 and 2009.

Table 1
Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|---------------------|--------------------------|--------------------|---------------------|---------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| <u>Assets</u> | | | | | | |
| Current and Other Assets | \$4,857,810 | \$5,245,595 | \$2,023,923 | \$1,714,372 | \$6,881,733 | \$6,959,967 |
| Capital Assets, Net | 8,612,456 | 8,303,466 | 23,507,284 | 20,201,100 | 32,119,740 | 28,504,566 |
| Total Assets | <u>13,470,266</u> | <u>13,549,061</u> | <u>25,531,207</u> | <u>21,915,472</u> | <u>39,001,473</u> | <u>35,464,533</u> |
| <u>Liabilities</u> | | | | | | |
| Current and Other Liabilities | 1,063,430 | 1,507,527 | 267,971 | 503,123 | 1,331,401 | 2,010,650 |
| Long-Term Liabilities | 634,159 | 712,011 | 12,325,534 | 11,466,422 | 12,959,693 | 12,178,433 |
| Total Liabilities | <u>1,697,589</u> | <u>2,219,538</u> | <u>12,593,505</u> | <u>11,969,545</u> | <u>14,291,094</u> | <u>14,189,083</u> |
| <u>Net Assets</u> | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 8,177,282 | 7,789,728 | 11,279,621 | 8,836,513 | 19,456,903 | 16,626,241 |
| Restricted | 2,146,506 | 2,048,500 | | | 2,146,506 | 2,048,500 |
| Unrestricted | 1,448,889 | 1,491,295 | 1,658,081 | 1,109,414 | 3,106,970 | 2,600,709 |
| Total Net Assets | <u>\$11,772,677</u> | <u>\$11,329,523</u> | <u>\$12,937,702</u> | <u>\$9,945,927</u> | <u>\$24,710,379</u> | <u>\$21,275,450</u> |

For governmental activities, there was a somewhat significant decrease in current and other assets (almost 7 percent) and due in large part to a decrease in intergovernmental receivables. At the end of the prior year, the City had a sizable receivable due from the State from a grant for street resurfacing. There was not a similar receivable for 2010. The decrease in current and other liabilities is generally due to a reduction in outstanding contracts payable at the end of the year as projects for Lakeshore Road, Lakeview Park, and the Sixth Street reconstruction project were completed.

Net assets for business-type activities reflects a substantial increase, 30 percent. Several factors contributed to the overall increase in current and other assets. There was an increase in cash and cash equivalents due to grant resources received but not spent as of year end for the Third Street Separation project. However, there were also two noteworthy decreases in current and other assets, a decrease in cash and cash equivalents held for construction contractors as the related projects were completed and a decrease in intergovernmental receivables as the City still had outstanding resources that had not been received for the Stag Grant at the conclusion of the prior year. The completion of several projects is also reflected in the decrease in current and other liabilities as contracts outstanding at the end of 2009 were completed and paid in 2010. The combination of the increase in current and other assets and the decrease in current and other liabilities is reflected in the overall increase in unrestricted net assets.

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

Also note the significant increase in net capital assets and invested in capital assets. The City had capital grants in excess of \$2.3 million for infrastructure improvements and continuing upgrades to the wastewater treatment plant. Ongoing construction activities also added to the increase in net capital assets.

Table 2 reflects the change in net assets for 2010 and 2009.

Table 2
Change in Net Assets

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|----------------------------|------------------|-----------------------------|------------------|-------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| <u>Revenues</u> | | | | | | |
| Program Revenues | | | | | | |
| Charges for Services | \$501,210 | \$398,196 | \$4,267,354 | \$4,002,555 | \$4,768,564 | \$4,400,751 |
| Operating Grants, Contributions, and Interest | 1,071,379 | 926,123 | | | 1,071,379 | 926,123 |
| Capital Grants and Contributions | 190,239 | 1,479,803 | 2,307,101 | 300,202 | 2,497,340 | 1,780,005 |
| Total Program Revenues | <u>1,762,828</u> | <u>2,804,122</u> | <u>6,574,455</u> | <u>4,302,757</u> | <u>8,337,283</u> | <u>7,106,879</u> |
| General Revenues | | | | | | |
| Property Taxes Levied for General Purposes | 570,132 | 547,572 | | | 570,132 | 547,572 |
| Property Taxes Levied for Fire Operations | 229,425 | 220,624 | | | 229,425 | 220,624 |
| Municipal Income Taxes | 2,083,235 | 2,207,164 | | | 2,083,235 | 2,207,164 |
| Other Local Taxes | 156,798 | 145,129 | | | 156,798 | 145,129 |
| Payment in Lieu of Taxes | 32,890 | | | | 32,890 | |
| Grants and Entitlements not Restricted to Specific Programs | 564,796 | 586,195 | | | 564,796 | 586,195 |
| Franchise Fees | 50,817 | 48,398 | | | 50,817 | 48,398 |
| Interest | 27,780 | 57,642 | | | 27,780 | 57,642 |
| Other | 40,108 | 43,444 | 7,523 | 409,203 | 47,631 | 452,647 |
| Total General Revenues | <u>3,755,981</u> | <u>3,856,168</u> | <u>7,523</u> | <u>409,203</u> | <u>3,763,504</u> | <u>4,265,371</u> |
| Total Revenues | <u>5,518,809</u> | <u>6,660,290</u> | <u>6,581,978</u> | <u>4,711,960</u> | <u>12,100,787</u> | <u>11,372,250</u> |

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

Program Expenses

| | | | | | | |
|---|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| Security of Persons and Property | | | | | | |
| Police | 1,906,801 | 1,817,709 | | | 1,906,801 | 1,817,709 |
| Fire | 302,588 | 275,282 | | | 302,588 | 275,282 |
| Public Health | 205,794 | 138,201 | | | 205,794 | 138,201 |
| Leisure Time Activities | 65,607 | 113,770 | | | 65,607 | 113,770 |
| Community Environment | 404,528 | 171,711 | | | 404,528 | 171,711 |
| Transportation | 712,886 | 662,942 | | | 712,886 | 662,942 |
| General Government | 1,467,995 | 1,658,994 | | | 1,467,995 | 1,658,994 |
| Interest and Fiscal Charges | 28,652 | 31,426 | | | 28,652 | 31,426 |
| Water | | | 1,443,610 | 1,443,125 | 1,443,610 | 1,443,125 |
| Sewer | | | 2,127,397 | 1,963,541 | 2,127,397 | 1,963,541 |
| Total Expenses | <u>5,094,851</u> | <u>4,870,035</u> | <u>3,571,007</u> | <u>3,406,666</u> | <u>8,665,858</u> | <u>8,276,701</u> |
| Increase in Net Assets Before Transfers | 423,958 | 1,790,255 | 3,010,971 | 1,305,294 | 3,434,929 | 3,095,549 |
| Transfers | 19,196 | | (19,196) | | | |
| Increase in Net Assets | <u>443,154</u> | <u>1,790,255</u> | <u>2,991,775</u> | <u>1,305,294</u> | <u>3,434,929</u> | <u>3,095,549</u> |
| Net Assets Beginning of Year | 11,329,523 | 9,361,776 | 9,945,927 | 8,640,633 | 21,275,450 | 18,002,409 |
| Net Assets End of Year | <u>\$11,772,677</u> | <u>\$11,152,031</u> | <u>\$12,937,702</u> | <u>\$9,945,927</u> | <u>\$24,710,379</u> | <u>\$21,097,958</u> |

For governmental activities, there was a 37 percent decrease in program revenues. While there were small increases in charges for services and operating grants and contributions, the large decrease in capital grants and contributions was due to the \$1.4 million in grant resources received in 2009 for the Lakeshore Preserve land acquisition. General revenues were very similar to the prior year.

Governmental activities expenditures increased less than 3 percent with minor increases and decreases among the various programs. Safety related activities (police and fire), as expected, continue to account for the largest portion of the City's expenses. The 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 operation of the offices of the mayor, auditor, treasurer, law director, safety service director, as well as the income tax department, and building/grounds maintenance).

For business-type activities, program revenues made up over 99 percent of total revenues for 2010. The sizable increase in capital grants and contributions is related to capital grants for infrastructure improvements and continuing upgrades to the wastewater treatment plant.

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

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

Table 3
Governmental Activities

| | Total Cost of Services | | Net Cost of Services | |
|----------------------------------|------------------------|--------------------|----------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| Security of Persons and Property | | | | |
| Police | \$1,906,801 | \$1,817,709 | \$1,665,860 | \$1,648,586 |
| Fire | 302,588 | 275,282 | 162,207 | 147,656 |
| Public Health | 205,794 | 138,201 | 177,323 | 98,352 |
| Leisure Time Activities | 65,607 | 113,770 | (10,927) | (1,409,567) |
| Community Environment | 404,528 | 171,711 | 51,275 | (20,978) |
| Transportation | 712,886 | 662,942 | 95,300 | (252) |
| General Government | 1,467,995 | 1,658,994 | 1,162,333 | 1,570,690 |
| Interest and Fiscal Charges | 28,652 | 31,426 | 28,652 | 31,426 |
| Total Expenses | \$5,094,851 | \$4,870,035 | \$3,332,023 | \$2,065,913 |

With general revenues providing for 68 percent of the City's program costs in 2010, the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As noted above, the City's police operations are substantially funded through general revenues. The same can be said for general government operations. The fire department and leisure time activities program benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of sports league fees, parking fees, and concessions for leisure time activities. In 2009, the City received \$1.4 million in grant resources for Lakeshore Preserve as reflected in the leisure time activities program for the prior year. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's only major governmental fund is the General Fund. The General Fund had a slight 3 percent decrease in fund balance (\$31,229). Revenues exceeded expenditures for 2010; however, operating subsidies to other funds (transfers) led to the fund balance decrease.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. The increase in net assets for the Water Fund was over 18 percent. Charges for services revenue increased due to a 4 percent rate increase and the City received capital contributions (grants) of almost \$263,000. The Sewer Fund had an increase in net assets of over \$2.5 million (33 percent). The Sewer Fund also had a 4 percent rate increase increasing charges for services revenue and received capital contributions (grants) of almost \$2 million.

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

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

statute. This includes the annual appropriations ordinance which is passed by City Council before April 1 each year. The City operates under a temporary budget for the first three months of each year.

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. For expenditures, there was little change from the original budget to the final budget. There was a savings of almost 13 percent from the final budget to actual expenditures due to conservative budgeting and savings were realized in all programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2010, was \$8,177,282 and \$11,279,621, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted of new restrooms at Lakeview Park, a boat, several new vehicles, and various street improvements. Deletions were not significant. For business-type activities, the primary increases were related to continued improvements at the wastewater treatment plant and water line improvements. Disposals for business-type activities were also not significant. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2010, the City had \$187,692 in general obligation bonds and \$45,308 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$3,565,000 in general obligation bonds, \$206,652 in OPWC loans, and \$8,306,170 in OWDA loans outstanding at year end.

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

CURRENT ISSUES

Current issues and events in the City include the following:

- The City has received federal stimulus funds for the Third Street sewer separation project. In addition, Ohio Public Works Commission funds were received to do a simultaneous water line project with the sewer separation project. The City has also begun Phase II of this project using WPCLF funding for sewer separation and Ohio Water Development Authority funds for the waterline portion.
- The City is completing upgrades that will increase the capacity of the wastewater treatment plant.
- The City has begun engineering the reconstruction of Sixth Street from Harrison Street to Fulton Street. We will also be separating our combined sewer system in the area. The Ohio Department of Transportation and the Ohio Public Works Commission have been identified as resources for funding.
- The City has been awarded Ohio Public Works Commission funds to repave a portion of Fulton Street. The remainder of the funding for this project will be paid by the City.

CITY OF PORT CLINTON
OTTAWA COUNTY, OHIO

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2010
Unaudited

REQUEST FOR INFORMATION

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

City of Port Clinton
Statement of Net Assets
December 31, 2010

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| <u>Assets</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,813,497 | \$1,259,240 | \$3,072,737 |
| Accounts Receivable | 67,411 | 704,297 | 771,708 |
| Accrued Interest Receivable | 6,573 | | 6,573 |
| Due from Other Governments | 450,550 | | 450,550 |
| Municipal Income Taxes Receivable | 687,019 | | 687,019 |
| Other Local Taxes Receivable | 2,395 | | 2,395 |
| Internal Balances | 2,248 | (2,248) | |
| Materials and Supplies Inventory | 14,451 | 62,634 | 77,085 |
| Property Taxes Receivable | 836,593 | | 836,593 |
| Notes Receivable | 736,378 | | 736,378 |
| Special Assessments Receivable | 220,535 | | 220,535 |
| Payment in Lieu of Taxes Receivable | 20,160 | | 20,160 |
| Nondepreciable Capital Assets | 1,981,500 | 11,123,886 | 13,105,386 |
| Depreciable Capital Assets, Net | 6,630,956 | 12,383,398 | 19,014,354 |
| Total Assets | 13,470,266 | 25,531,207 | 39,001,473 |
| <u>Liabilities</u> | | | |
| Accrued Wages Payable | 67,910 | 25,443 | 93,353 |
| Accounts Payable | 37,966 | 47,648 | 85,614 |
| Contracts Payable | 12,000 | 68,418 | 80,418 |
| Due to Other Governments | 131,177 | 49,088 | 180,265 |
| Deferred Revenue | 813,527 | | 813,527 |
| Accrued Interest Payable | 850 | 11,141 | 11,991 |
| Deposits Held and Due to Others | | 66,233 | 66,233 |
| Long-Term Liabilities | | | |
| Due Within One Year | 211,744 | 484,168 | 695,912 |
| Due in More Than One Year | 422,415 | 11,841,366 | 12,263,781 |
| Total Liabilities | 1,697,589 | 12,593,505 | 14,291,094 |
| <u>Net Assets</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 8,177,282 | 11,279,621 | 19,456,903 |
| Restricted for | | | |
| Debt Service | 128,079 | | 128,079 |
| Capital Projects | 206,809 | | 206,809 |
| Security of Persons and Property - Fire | 349,128 | | 349,128 |
| Community Environment | 858,102 | | 858,102 |
| Other Purposes | 604,388 | | 604,388 |
| Unrestricted | 1,448,889 | 1,658,081 | 3,106,970 |
| Total Net Assets | \$11,772,677 | \$12,937,702 | \$24,710,379 |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2010

| | <u>Program Revenues</u> | | | |
|---------------------------------------|-------------------------|---------------------------------|--|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants, Contributions, and Interest</u> | <u>Capital Grants and Contributions</u> |
| <u>Governmental Activities</u> | | | | |
| Security of Persons and Property | | | | |
| Police | \$1,906,801 | \$57,756 | \$101,751 | \$81,434 |
| Fire | 302,588 | 132,682 | 7,699 | |
| Public Health | 205,794 | 28,471 | | |
| Leisure Time Activities | 65,607 | 28,733 | 47,801 | |
| Community Environment | 404,528 | | 353,253 | |
| Transportation | 712,886 | 72,906 | 435,875 | 108,805 |
| General Government | 1,467,995 | 180,662 | 125,000 | |
| Interest and Fiscal Charges | 28,652 | | | |
| Total Governmental Activities | 5,094,851 | 501,210 | 1,071,379 | 190,239 |
| <u>Business-Type Activities</u> | | | | |
| Water | 1,443,610 | 1,596,377 | | 262,896 |
| Sewer | 2,127,397 | 2,670,977 | | 2,044,205 |
| Total Business-Type Activities | 3,571,007 | 4,267,354 | | 2,307,101 |
| Total | \$8,665,858 | \$4,768,564 | \$1,071,379 | \$2,497,340 |

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year - Restated (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 |
|----------------------------|-----------------------------|---------------------|
| (\$1,665,860) | | (\$1,665,860) |
| (162,207) | | (162,207) |
| (177,323) | | (177,323) |
| 10,927 | | 10,927 |
| (51,275) | | (51,275) |
| (95,300) | | (95,300) |
| (1,162,333) | | (1,162,333) |
| (28,652) | | (28,652) |
| <u>(3,332,023)</u> | | <u>(3,332,023)</u> |
| | \$415,663 | 415,663 |
| | 2,587,785 | 2,587,785 |
| | <u>3,003,448</u> | <u>3,003,448</u> |
| <u>(3,332,023)</u> | 3,003,448 | <u>(328,575)</u> |
| 570,132 | | 570,132 |
| 229,425 | | 229,425 |
| 2,083,235 | | 2,083,235 |
| 156,798 | | 156,798 |
| 32,890 | | 32,890 |
| 564,796 | | 564,796 |
| 50,817 | | 50,817 |
| 27,780 | | 27,780 |
| 40,108 | 7,523 | 47,631 |
| 3,755,981 | 7,523 | 3,763,504 |
| 19,196 | (19,196) | |
| <u>3,775,177</u> | <u>(11,673)</u> | <u>3,763,504</u> |
| 443,154 | 2,991,775 | 3,434,929 |
| <u>11,329,523</u> | <u>9,945,927</u> | <u>21,275,450</u> |
| <u>\$11,772,677</u> | <u>\$12,937,702</u> | <u>\$24,710,379</u> |

City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2010

| | <u>General</u> | <u>Other Governmental</u> | <u>Total Governmental Funds</u> |
|--|--------------------|-------------------------------|---|
| <u>Assets</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$693,741 | \$1,101,153 | \$1,794,894 |
| Accounts Receivable | 64,167 | 3,244 | 67,411 |
| Accrued Interest Receivable | 5,909 | 664 | 6,573 |
| Due from Other Governments | 264,785 | 185,765 | 450,550 |
| Municipal Income Taxes Receivable | 687,019 | | 687,019 |
| Other Local Taxes Receivable | 2,395 | | 2,395 |
| Interfund Receivable | 31,529 | | 31,529 |
| Materials and Supplies Inventory | 7,353 | 7,098 | 14,451 |
| Restricted Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | 18,603 | | 18,603 |
| Property Taxes Receivable | 590,295 | 246,298 | 836,593 |
| Notes Receivable | | 736,378 | 736,378 |
| Special Assessments Receivable | | 220,535 | 220,535 |
| Payment in Lieu of Taxes Receivable | | 20,160 | 20,160 |
| Total Assets | <u>\$2,365,796</u> | <u>\$2,521,295</u> | <u>\$4,887,091</u> |
| <u>Liabilities and Fund Balance</u> | | | |
| <u>Liabilities</u> | | | |
| Accrued Wages Payable | \$57,824 | \$10,086 | \$67,910 |
| Accounts Payable | 17,602 | 20,364 | 37,966 |
| Contracts Payable | 12,000 | | 12,000 |
| Due to Other Governments | 113,913 | 17,264 | 131,177 |
| Interfund Payable | | 29,281 | 29,281 |
| Deferred Revenue | 1,239,019 | 639,723 | 1,878,742 |
| Total Liabilities | <u>1,440,358</u> | <u>716,718</u> | <u>2,157,076</u> |
| <u>Fund Balance</u> | | | |
| Nonspendable | 26,874 | 7,098 | 33,972 |
| Restricted | 18,603 | 1,791,656 | 1,810,259 |
| Assigned | 62,209 | 5,823 | 68,032 |
| Unassigned | 817,752 | | 817,752 |
| Total Fund Balance | <u>925,438</u> | <u>1,804,577</u> | <u>2,730,015</u> |
| Total Liabilities and Fund Balance | <u>\$2,365,796</u> | <u>\$2,521,295</u> | <u>\$4,887,091</u> |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
 Reconciliation of Total Governmental Fund Balance
 to Net Assets of Governmental Activities
 December 31, 2010

| | |
|---------------------------------|-------------|
| Total Governmental Fund Balance | \$2,730,015 |
|---------------------------------|-------------|

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

| | |
|---|-----------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 8,612,456 |
|---|-----------|

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

| | | |
|-----------------------------------|---------|-----------|
| Accounts Receivable | 63,633 | |
| Accrued Interest Receivable | 3,369 | |
| Due from Other Governments | 354,385 | |
| Municipal Income Taxes Receivable | 377,289 | |
| Other Local Taxes Receivable | 371 | |
| Property Taxes Receivable | 45,633 | |
| Special Assessments Receivable | 220,535 | |
| | | 1,065,215 |

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

| | | |
|-----------------------------------|-----------|-----------|
| Accrued Interest Payable | (850) | |
| General Obligations Bonds Payable | (187,692) | |
| Special Assessment Bonds Payable | (45,308) | |
| Capital Leases Payable | (247,482) | |
| Compensated Absences Payable | (153,677) | |
| | | (635,009) |

| | |
|---------------------------------------|----------------------------|
| Net Assets of Governmental Activities | <u><u>\$11,772,677</u></u> |
|---------------------------------------|----------------------------|

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, 2010

| | General | Other Governmental | Total Governmental Funds |
|---|------------------|-----------------------|--------------------------------|
| <u>Revenues</u> | | | |
| Property Taxes | \$572,030 | \$231,692 | \$803,722 |
| Municipal Income Taxes | 2,080,850 | | 2,080,850 |
| Other Local Taxes | 161,421 | 72,906 | 234,327 |
| Payment in Lieu of Taxes | | 32,890 | 32,890 |
| Special Assessments | | 37,708 | 37,708 |
| Charges for Services | 280,437 | 132,862 | 413,299 |
| Fees, Licenses, and Permits | 51,507 | | 51,507 |
| Fines and Forfeitures | 7,979 | 3,596 | 11,575 |
| Intergovernmental | 735,718 | 1,252,587 | 1,988,305 |
| Interest | 37,553 | 9,891 | 47,444 |
| Other | 69,735 | 17,623 | 87,358 |
| Total Revenues | 3,997,230 | 1,791,755 | 5,788,985 |
| <u>Expenditures</u> | | | |
| Current: | | | |
| Security of Persons and Property | | | |
| Police | 1,851,591 | 33,188 | 1,884,779 |
| Fire | | 307,132 | 307,132 |
| Public Health | 193,057 | | 193,057 |
| Leisure Time Activities | 51,573 | | 51,573 |
| Community Environment | 12,742 | 390,993 | 403,735 |
| Transportation | 0 | 483,502 | 483,502 |
| General Government | 1,385,309 | | 1,385,309 |
| Capital Outlay | | 538,183 | 538,183 |
| Debt Service: | | | |
| Principal Retirement | 4,423 | 91,718 | 96,141 |
| Interest and Fiscal Charges | 1,374 | 27,413 | 28,787 |
| Total Expenditures | 3,500,069 | 1,872,129 | 5,372,198 |
| Excess of Revenues Over (Under) Expenditures | 497,161 | (80,374) | 416,787 |
| <u>Other Financing Sources (Uses)</u> | | | |
| Transfers In | | 528,390 | 528,390 |
| Transfers Out | (528,390) | | (528,390) |
| Total Other Financing Sources (Uses) | (528,390) | 528,390 | |
| Change in Fund Balance | (31,229) | 448,016 | 416,787 |
| Fund Balances at Beginning of Year - Restated (Note 3) | 956,667 | 1,356,561 | 2,313,228 |
| Fund Balance End of Year | \$925,438 | \$1,804,577 | \$2,730,015 |

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, 2010

Change in Fund Balance - Total Governmental Funds \$416,787

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

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

| | | |
|---|------------------|---------|
| Capital Outlay- Nondepreciable Capital Assets | 295,281 | |
| Capital Outlay- Depreciable Capital Assets | 360,892 | |
| Capital Contributions | 81,434 | |
| Asset Transferred from Business-Type Activities | 28,795 | |
| Depreciation | <u>(466,412)</u> | 299,990 |

The cost of the capital assets is removed from the capital asset account on the statement of net assets when disposed of resulting in a gain on disposal of capital assets on the statements of activities.

9,000

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

| | | |
|-----------------------------|-----------------|-----------|
| Property Taxes | (4,165) | |
| Municipal Income Taxes | 2,385 | |
| Other Local Taxes | (4,623) | |
| Special Assessments | (37,708) | |
| Charges for Services | 320 | |
| Fees, Licenses, and Permits | 2,420 | |
| Intergovernmental | (302,171) | |
| Interest | <u>(17,068)</u> | (360,610) |

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

| | | |
|----------------------------------|---------------|--------|
| General Obligation Bonds Payable | 9,423 | |
| Special Assessment Bonds Payable | 17,577 | |
| Capital Leases Payable | <u>69,141</u> | 96,141 |

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

135

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

(18,289)

Change in Net Assets of Governmental Activities \$443,154

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, 2010

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance with Final Budget Over (Under) |
|---|-------------------------|------------------|------------------|--|
| | <u>Original</u> | <u>Final</u> | | <u>(Under)</u> |
| <u>Revenues</u> | | | | |
| Property Taxes | \$509,950 | \$544,050 | \$572,030 | \$27,980 |
| Municipal Income Taxes | 2,099,792 | 2,023,700 | 2,086,459 | 62,759 |
| Other Local Taxes | 142,613 | 139,000 | 163,653 | 24,653 |
| Charges for Services | 337,988 | 307,431 | 281,037 | (26,394) |
| Fees, Licenses, and Permits | 3,919 | 52,217 | 51,507 | (710) |
| Fines and Forfeitures | 3,078 | 11,500 | 7,979 | (3,521) |
| Intergovernmental | 629,549 | 635,000 | 710,724 | 75,724 |
| Interest | 32,936 | 32,102 | 39,740 | 7,638 |
| Other | 198,546 | 168,125 | 72,534 | (95,591) |
| Total Revenues | 3,958,371 | 3,913,125 | 3,985,663 | 72,538 |
| <u>Expenditures</u> | | | | |
| Current: | | | | |
| Security of Persons and Property | | | | |
| Police | 2,019,167 | 2,022,946 | 1,863,865 | 159,081 |
| Public Health | 210,490 | 216,490 | 193,282 | 23,208 |
| Leisure Time Activities | 104,740 | 77,740 | 51,920 | 25,820 |
| Community Environment | 25,209 | 25,210 | 12,742 | 12,468 |
| General Government | 1,683,236 | 1,723,439 | 1,422,908 | 300,531 |
| Debt Service: | | | | |
| Principal Retirement | | 4,423 | 4,423 | |
| Interest and Fiscal Charges | | 1,374 | 1,374 | |
| Total Expenditures | 4,042,842 | 4,071,622 | 3,550,514 | 521,108 |
| Excess of Revenues Over (Under) Expenditures | (84,471) | (158,497) | 435,149 | 593,646 |
| <u>Other Financing Sources (Uses)</u> | | | | |
| Advances In | | | 4,005 | 4,005 |
| Advances Out | | | (7,773) | (7,773) |
| Transfers In | 46,517 | | | |
| Transfers Out | (528,390) | (528,390) | (528,390) | |
| Total Other Financing Sources (Uses) | (481,873) | (528,390) | (532,158) | (3,768) |
| Change in Fund Balance | (566,344) | (686,887) | (97,009) | 589,878 |
| Fund Balance Beginning of Year | 567,036 | 567,036 | 567,036 | |
| Prior Year Encumbrances Appropriated | 170,274 | 170,274 | 170,274 | |
| Fund Balance End of Year | \$170,966 | \$50,423 | \$640,301 | \$589,878 |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Fund Net Assets
Enterprise Funds
December 31, 2010

| | <u>Business-Type Activities</u> | | Total Enterprise Funds |
|---|---------------------------------|---------------------|------------------------------|
| | <u>Water</u> | <u>Sewer</u> | |
| <u>Assets</u> | | | |
| <u>Current Assets</u> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$455,980 | \$737,027 | \$1,193,007 |
| Accounts Receivable | 251,905 | 452,392 | 704,297 |
| Materials and Supplies Inventory | 33,007 | 29,627 | 62,634 |
| Total Current Assets | <u>740,892</u> | <u>1,219,046</u> | <u>1,959,938</u> |
| <u>Non-Current Assets</u> | | | |
| Restricted Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | 66,233 | | 66,233 |
| Nondepreciable Capital Assets | 574,165 | 10,549,721 | 11,123,886 |
| Depreciable Capital Assets, Net | 2,259,146 | 10,124,252 | 12,383,398 |
| Total Non-Current Assets | <u>2,899,544</u> | <u>20,673,973</u> | <u>23,573,517</u> |
| Total Assets | <u>3,640,436</u> | <u>21,893,019</u> | <u>25,533,455</u> |
| <u>Liabilities</u> | | | |
| <u>Current Liabilities</u> | | | |
| Accrued Wages Payable | 7,258 | 18,185 | 25,443 |
| Accounts Payable | 1,569 | 46,079 | 47,648 |
| Contracts Payable | | 68,418 | 68,418 |
| Due to Other Governments | 17,644 | 31,444 | 49,088 |
| Interfund Payable | | 2,248 | 2,248 |
| Accrued Interest Payable | | 11,141 | 11,141 |
| General Obligation Bonds Payable | | 145,000 | 145,000 |
| OPWC Loans Payable | 1,514 | 13,745 | 15,259 |
| OWDA Loans Payable | 56,367 | 220,987 | 277,354 |
| Capital Leases Payable | 7,669 | 15,339 | 23,008 |
| Compensated Absences Payable | 4,206 | 19,341 | 23,547 |
| Total Current Liabilities | <u>96,227</u> | <u>591,927</u> | <u>688,154</u> |
| <u>Non-Current Liabilities</u> | | | |
| Deposits Held and Due to Others | 66,233 | | 66,233 |
| General Obligation Bonds Payable | | 3,420,000 | 3,420,000 |
| OPWC Loans Payable | 19,789 | 171,604 | 191,393 |
| OWDA Loans Payable | 836,011 | 7,192,805 | 8,028,816 |
| Capital Leases Payable | 42,278 | 84,555 | 126,833 |
| Compensated Absences Payable | 20,983 | 53,341 | 74,324 |
| Total Non-Current Liabilities | <u>985,294</u> | <u>10,922,305</u> | <u>11,907,599</u> |
| Total Liabilities | <u>1,081,521</u> | <u>11,514,232</u> | <u>12,595,753</u> |
| <u>Net Assets</u> | | | |
| Invested in Capital Assets, Net of Related Debt | 1,869,683 | 9,409,938 | 11,279,621 |
| Unrestricted | 689,232 | 968,849 | 1,658,081 |
| Total Net Assets | <u>\$2,558,915</u> | <u>\$10,378,787</u> | <u>\$12,937,702</u> |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Enterprise Funds
For the Year Ended December 31, 2010

| | <u>Business-Type Activities</u> | | Total Enterprise Funds |
|-------------------------------------|---------------------------------|----------------------------|------------------------------|
| | <u>Water</u> | <u>Sewer</u> | |
| <u>Operating Revenues</u> | | | |
| Charges for Services | \$1,596,377 | \$2,670,977 | \$4,267,354 |
| Other | 3,066 | 4,457 | 7,523 |
| Total Operating Revenues | <u>1,599,443</u> | <u>2,675,434</u> | <u>4,274,877</u> |
| <u>Operating Expenses</u> | | | |
| Personal Services | 396,718 | 754,773 | 1,151,491 |
| Contractual Services | 10,770 | 82,133 | 92,903 |
| Materials and Supplies | 831,546 | 553,019 | 1,384,565 |
| Bad Debt | 8,749 | 14,713 | 23,462 |
| Other | 68,000 | 105,000 | 173,000 |
| Depreciation | 80,383 | 274,150 | 354,533 |
| Total Operating Expenses | <u>1,396,166</u> | <u>1,783,788</u> | <u>3,179,954</u> |
| Operating Income | <u>203,277</u> | <u>891,646</u> | <u>1,094,923</u> |
| <u>Non-Operating Expenses</u> | | | |
| Loss on Disposal of Capital Assets | (19,196) | (3,849) | (23,045) |
| Interest Expense | (47,444) | (339,760) | (387,204) |
| Total Non-Operating Expenses | <u>(66,640)</u> | <u>(343,609)</u> | <u>(410,249)</u> |
| Income before Capital Contributions | 136,637 | 548,037 | 684,674 |
| Capital Contributions | <u>262,896</u> | <u>2,044,205</u> | <u>2,307,101</u> |
| Change in Net Assets | 399,533 | 2,592,242 | 2,991,775 |
| Net Assets Beginning of Year | <u>2,159,382</u> | <u>7,786,545</u> | <u>9,945,927</u> |
| Net Assets End of Year | <u><u>\$2,558,915</u></u> | <u><u>\$10,378,787</u></u> | <u><u>\$12,937,702</u></u> |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2010

| | <u>Business-Type Activities</u> | | |
|---|---------------------------------|------------------|---------------------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total Enterprise Funds</u> |
| Increases (Decreases) in Cash and Cash Equivalents | | | |
| <u>Cash Flows from Operating Activities</u> | | | |
| Cash Received from Customers | \$1,558,410 | \$2,607,564 | \$4,165,974 |
| Cash Received from Other Revenues | 3,066 | 4,457 | 7,523 |
| Cash Payments for Personal Services | (401,171) | (757,055) | (1,158,226) |
| Cash Payments for Contractual Services | (10,496) | (65,119) | (75,615) |
| Cash Payments to Vendors | (842,180) | (867,580) | (1,709,760) |
| Cash Payments for Other Expenses | (68,000) | (105,000) | (173,000) |
| Net Cash Provided by Operating Activities | <u>239,629</u> | <u>817,267</u> | <u>1,056,896</u> |
| <u>Cash Flows from Noncapital Financing Activities</u> | | | |
| Advances In | | 2,248 | 2,248 |
| <u>Cash Flows from Capital and Related Financing Activities</u> | | | |
| Principal Paid on General Obligation Bonds | | (140,000) | (140,000) |
| Principal Paid on OPWC Loans | (1,515) | (13,746) | (15,261) |
| Principal Paid on OWDA Loans | (62,744) | (345,373) | (408,117) |
| Lease Principal | (7,288) | (14,576) | (21,864) |
| Interest Paid on General Obligation Bonds | | (151,748) | (151,748) |
| Interest Paid on OWDA Loans | (44,648) | (182,699) | (227,347) |
| Lease Interest | (2,796) | (5,592) | (8,388) |
| OWDA Loans Issued | 310,731 | 1,137,587 | 1,448,318 |
| Grants | 262,896 | 2,174,181 | 2,437,077 |
| Acquisition of Capital Assets | (561,613) | (3,054,125) | (3,615,738) |
| Net Cash Used for Capital and Related Financing Activities | <u>(106,977)</u> | <u>(596,091)</u> | <u>(703,068)</u> |
| Net Increase in Cash and Cash Equivalents | 132,652 | 223,424 | 356,076 |
| Cash and Cash Equivalents Beginning of Year | <u>389,561</u> | <u>513,603</u> | <u>903,164</u> |
| Cash and Cash Equivalents End of Year | <u>\$522,213</u> | <u>\$737,027</u> | <u>\$1,259,240</u> |

(continued)

City of Port Clinton
Statement of Cash Flows
Enterprise Funds
For the Year Ended December 31, 2010
(continued)

| | <u>Business-Type Activities</u> | | |
|---|---------------------------------|------------------|---------------------------------------|
| | <u>Water</u> | <u>Sewer</u> | <u>Total Enterprise Funds</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u> | | | |
| Operating Income | \$203,277 | \$891,646 | \$1,094,923 |
| <u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u> | | | |
| Depreciation | 80,383 | 274,150 | 354,533 |
| Provision for Uncollectible Accounts | 8,749 | 14,713 | 23,462 |
| Changes in Assets and Liabilities: | | | |
| Increase in Accounts Receivable | (37,967) | (63,413) | (101,380) |
| Decrease in Prepaid Items | 1,861 | 1,612 | 3,473 |
| (Increase) Decrease in Materials and Supplies Inventory | (19,496) | 8,242 | (11,254) |
| Increase in Accrued Wages Payable | 755 | 1,638 | 2,393 |
| Increase (Decrease) in Accounts Payable | (453) | 19,535 | 19,082 |
| Decrease in Contracts Payable | | (73,865) | (73,865) |
| Decrease in Retainage Payable | | (258,271) | (258,271) |
| Increase (Decrease) in Due to Other Governments | 366 | (302) | 64 |
| Increase (Decrease) in Compensated Absences Payable | (5,546) | 1,582 | (3,964) |
| Increase in Deposits Held and Due to Others | 7,700 | | 7,700 |
| Net Cash Provided by Operating Activities | <u>\$239,629</u> | <u>\$817,267</u> | <u>\$1,056,896</u> |

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2010

| | |
|--|------------------------|
| <u>Assets</u> | |
| Equity in Pooled Cash and Cash Equivalents | <u><u>\$19,917</u></u> |
| <u>Liabilities</u> | |
| Undistributed Assets | <u><u>\$19,917</u></u> |

See Accompanying Notes to the Basic Financial Statements

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City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010

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

A. The City

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

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

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

B. Reporting Entity

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

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the budget, the issuance of debt, or the levying of taxes. There were no component units of the City of Port Clinton in 2010.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental in nature and those that are considered business-type activities.

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

Fund Financial Statements

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

Proprietary Funds

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

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

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

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

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2010. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2010, but were levied to finance 2011 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

E. Budgetary Process

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

F. Cash and Investments

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

During 2010, the City's investments included nonnegotiable certificates of deposit, federal agency securities, mutual funds, and STAR Ohio. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on current share price or quoted market price. 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, 2010.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2010 was \$37,553, which includes \$27,869 assigned from other City funds.

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

G. Inventory

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Restricted Assets

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

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

I. Capital Assets

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

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Interfund Assets/Liabilities

On fund financial statements, receivables and payables resulting from interfund loans are classified as "Interfund Receivables/Payables". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets.

K. Compensated Absences

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

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

L. Accrued Liabilities and Long-Term Obligations

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

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

M. Net Assets

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Fund Balance

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

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

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

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

O. Operating Revenues and Expenses

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

P. Capital Contributions

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

Q. Interfund Transactions

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

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

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

R. Estimates

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF FUND BALANCE/NET ASSETS

A. Change in Accounting Principles

For 2010, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". GASB Statement No. 54 provides fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. The requirements of this statement classify fund balance as nonspendable, restricted, committed, assigned, and/or unassigned.

B. Restatement of Fund Balance/Net Assets

The restatement due to the implementation of GASB Statement No. 54, due to the error in recording notes receivable, and due to recording a portion of the payment in lieu of taxes as deferred in the prior year when it should have been reported as revenue had the following effect on fund balance/net assets of the major and nonmajor funds of the City as they were previously reported.

| | General | Other Governmental | Total Governmental Funds |
|---|-----------|-----------------------|--------------------------------|
| Fund Balance at December 31, 2009 | \$934,417 | \$1,201,319 | \$2,135,736 |
| Change in Fund Structure | 22,250 | (22,250) | |
| Notes Receivable | | 177,492 | 177,492 |
| Adjusted Fund Balance at December 31, 2009 | \$956,667 | \$1,356,561 | \$2,313,228 |

The restatement had the following effect on net assets for governmental activities.

| | Total Governmental Activities |
|---|-------------------------------------|
| Net Assets at December 31, 2009 | \$11,164,031 |
| Payment in Lieu of Taxes | (12,000) |
| Notes Receivable | 177,492 |
| Adjusted Net Assets at December 31, 2009 | \$11,329,523 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING

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

The major differences between the budget basis and the GAAP basis are that:

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

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

| Change in Fund Balance | |
|---|-------------|
| GAAP Basis | (\$31,229) |
| <u>Increases (Decreases) Due To</u> | |
| Revenue Accruals: | |
| Accrued 2009, Received in Cash 2010 | 375,046 |
| Accrued 2010, Not Yet Received in Cash | (375,551) |
| Expenditure Accruals: | |
| Accrued 2009, Paid in Cash 2010 | (222,237) |
| Accrued 2010, Not Yet Paid in Cash | 201,339 |
| Cash Adjustments: | |
| Unrecorded Activity 2009 | (2,278) |
| Unrecorded Activity 2010 | (8,784) |
| | (continued) |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (continued)

Change in Fund Balance
(continued)

| | |
|--|-------------------|
| Prepaid Items | \$29,582 |
| Materials and Supplies Inventory | 4,130 |
| Advances In | 4,005 |
| Advances Out | (7,773) |
| Loan Repayments | |
| Encumbrances Outstanding at Year End (Budget Basis) | <u>(63,259)</u> |
| Budget Basis | <u>(\$97,009)</u> |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligation or security issued by any federal government agency or instrumentality including, but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above;
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);
6. The State Treasurer's investment pool (STAR Ohio); and
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

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

Investments

As of December 31, 2010, the City had the following investments:

| | <u>Fair Value</u> | <u>Maturity</u> |
|---|-------------------|-----------------|
| Federal Farm Credit Bank Notes | \$99,867 | 3/8/12 |
| Federal Farm Credit Bank Notes | 184,757 | 6/13/12 |
| Federal National Mortgage Association Notes | 150,597 | 5/25/12 |
| US Treasury Notes | 151,172 | 1/15/12 |
| US Treasury Notes | 140,788 | 2/29/12 |
| Mutual Funds | 3,633 | 52 days |
| STAR Ohio | 7,998 | 58 days |
| Total Investments | <u>\$738,812</u> | |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 5 - DEPOSITS AND INVESTMENTS (continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The investment policy restricts the Treasurer from investing in any securities other than those identified in the Ohio Revised Code. Securities with a fixed interest rate must mature within five years from the date of investment and securities with a variable interest rate must mature within two years from the date of investment.

The federal agency securities and mutual funds carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service and that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

| | Fair Value | Percentage of Portfolio |
|---------------------------------------|------------|-------------------------|
| Federal Farm Credit Bank | \$284,624 | 38.5% |
| Federal National Mortgage Association | 150,597 | 20.4 |
| US Treasury | 291,960 | 39.5 |

NOTE 6 - RECEIVABLES

Receivables at December 31, 2010, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; special assessments; and payment in lieu of taxes. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$721,947, will not be received within one year. Special assessments receivable, in the amount of \$197,692, will not be received within one year. At December 31, 2010, the amount of delinquent special assessments was \$97,148.

A summary of the changes in notes receivable during 2010 follows:

| | Balance December 31, 2009 | New Loans | Repayments | Balance December 31, 2010 |
|----------------------|---------------------------------|--------------|------------|---------------------------------|
| Special Revenue Fund | | | | |
| CDBG | \$112,705 | | \$6,238 | \$106,467 |
| HPG | 304,402 | | 19,648 | 283,754 |
| HOME | 330,908 | \$31,550 | 16,301 | 346,157 |
| | \$747,015 | \$31,550 | \$42,187 | \$736,378 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 6 - RECEIVABLES (continued)

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

| | Water | Sewer | Total Enterprise Funds |
|--------------------------------------|-----------|-----------|------------------------------|
| Accounts Receivable | \$271,237 | \$486,759 | \$757,996 |
| Less Allowance for Uncollectibles | 19,332 | 34,367 | 53,699 |
| Net Accounts Receivable | \$251,905 | \$452,392 | \$704,297 |

A summary of the principal items of intergovernmental receivables follows:

| | Amount |
|-----------------------------------|----------|
| Governmental Activities | |
| Major Fund | |
| General Fund | |
| Homestead and Rollback | \$36,019 |
| Personal Property Phase-Out | 3,119 |
| Estate Tax | 35,358 |
| Local Government | 179,480 |
| Beer and Liquor Permits | 9,548 |
| Port Clinton City School District | 1,261 |
| Total General Fund | 264,785 |
| Nonmajor Funds | |
| Fire Levy | |
| Homestead and Rollback | 14,643 |
| CDBG | |
| CDBG Grant | 5,525 |
| Main Thoroughfare | |
| Motor Vehicle License Tax | 5,481 |
| State Highway | |
| Gasoline Tax | 8,755 |
| Motor Vehicle License Tax | 3,254 |
| Total State Highway | 12,009 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 6 - RECEIVABLES (continued)

| | |
|-------------------------------------|------------------|
| Governmental Activities (continued) | |
| Nonmajor Funds (continued) | |
| Street Maintenance | |
| Gasoline Tax | \$109,835 |
| Motor Vehicle License Tax | 38,272 |
| Total Street Maintenance | <u>148,107</u> |
| Total Nonmajor Funds | <u>185,765</u> |
| Total Governmental Activities | <u>\$450,550</u> |

NOTE 7 - MUNICIPAL INCOME TAXES

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

NOTE 8 - 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 2010 represent the collection of 2009 taxes. Real property taxes received in 2010 were levied after October 1, 2009, on the assessed values as of January 1, 2009, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2010 represent the collection of 2009 taxes. Public utility real and tangible personal property taxes received in 2010 became a lien on December 31, 2008, were levied after October 1, 2009, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 8 - PROPERTY TAXES (continued)

Tangible personal property tax revenues received in calendar year 2010 (other than public utility property) represent the collection of calendar year 2010 taxes levied against local and inter-exchange telephone companies. Tangible personal property tax on business inventory, manufacturing machinery and equipment, and furniture and fixtures is no longer levied and collected. The October 2008 tangible personal property tax settlement was the last property tax settlement for general personal property taxes. Tangible personal property taxes received from telephone companies in calendar year 2010 were levied after October 1, 2009, on the value as of December 31, 2009. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

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, 2010, and for which there was an enforceable legal claim. In governmental funds, the entire receivable has been deferred since current taxes were not levied to finance 2010 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable has been deferred.

The full tax rate for all City operations for the year ended December 31, 2010, was \$6.10 per \$1,000 of assessed value. The assessed values of real property and public utility property upon which 2010 property tax receipts were based are as follows:

| Category | Assessed Value |
|--------------------------|----------------|
| Real Estate | |
| Agricultural/Residential | \$105,619,260 |
| Commercial/Industrial | 32,818,910 |
| Public Utility Real | 29,060 |
| Public Utility Personal | 6,112,270 |
| Total | \$144,579,500 |

NOTE 9 - PAYMENT IN LIEU OF TAXES

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

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2010, was as follows:

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

| | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 |
|--|---------------------------------|--------------------|--------------------|---------------------------------|
| Governmental Activities: | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$1,981,500 | | | \$1,981,500 |
| Construction in Progress | 418,964 | \$295,281 | \$(714,245) | |
| Total Nondepreciable Capital Assets | 2,400,464 | 295,281 | (714,245) | 1,981,500 |
| Depreciable Capital Assets | | | | |
| Land Improvements | 232,038 | | | 232,038 |
| Buildings and Improvements | 1,729,498 | 172,178 | | 1,901,676 |
| Furniture, Fixtures, and Equipment | 1,083,707 | 138,537 | | 1,222,244 |
| Vehicles | 1,894,775 | 114,347 | (46,462) | 1,962,660 |
| Streets | 9,060,024 | 769,304 | | 9,829,328 |
| Total Depreciable Capital Assets | 14,000,042 | 1,194,366 | (46,462) | 15,147,946 |
| Less Accumulated Depreciation for | | | | |
| Land Improvements | (47,783) | (11,602) | | (59,385) |
| Buildings and Improvements | (477,055) | (42,429) | | (519,484) |
| Furniture, Fixtures, and Equipment | (691,555) | (83,326) | | (774,881) |
| Vehicles | (1,280,404) | (97,384) | 46,462 | (1,331,326) |
| Streets | (5,600,243) | (231,671) | | (5,831,914) |
| Total Accumulated Depreciation | (8,097,040) | (466,412) | 46,462 | (8,516,990) |
| Total Depreciable Capital Assets, Net | 5,903,002 | 727,954 | | 6,630,956 |
| Governmental Activities Capital Assets, Net | \$8,303,466 | \$1,023,235 | (\$714,245) | \$8,612,456 |

Governmental activities accepted contributions of depreciable capital assets from outside sources, with a fair value of \$81,434 during 2010. Governmental funds also accepted contributions of capital assets from business-type activities, in the amount of \$28,795, with accumulated depreciation of \$9,599.

| | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 |
|--|------------------------------------|------------------|-----------------|---------------------------------|
| Business-Type Activities: | | | | |
| Nondepreciable Capital Assets | | | | |
| Land | \$12,552 | | | \$12,552 |
| Construction in Progress | 7,474,717 | \$3,660,851 | \$(24,234) | 11,111,334 |
| Total Nondepreciable Capital Assets | 7,487,269 | 3,660,851 | (24,234) | 11,123,886 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 10 - CAPITAL ASSETS (continued)

| | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 |
|---|------------------------------------|--------------------|-------------------|---------------------------------|
| Business-Type Activities: | | | | |
| Depreciable Capital Assets | | | | |
| Land Improvements | \$13,965 | | | \$13,965 |
| Buildings and Improvements | 11,753,097 | | \$30,900 | 11,722,197 |
| Furniture, Fixtures, and Equipment | 740,508 | \$22,911 | (28,795) | 734,624 |
| Vehicles | 284,953 | | | 284,953 |
| Water, Sewer, and Storm Sewer Lines | 3,852,788 | 24,234 | | 3,877,022 |
| Total Depreciable Capital Assets | 16,645,311 | 47,145 | (59,695) | 16,632,761 |
| Less Accumulated Depreciation for | | | | |
| Land Improvements | (6,633) | (698) | | (7,331) |
| Buildings and Improvements | (2,847,447) | (205,817) | 27,051 | (3,026,213) |
| Furniture, Fixtures, and Equipment | (314,592) | (45,491) | 9,599 | (350,484) |
| Vehicles | (77,078) | (25,468) | | (102,546) |
| Water, Sewer, and Storm Sewer Lines | (685,730) | (77,059) | | (762,789) |
| Total Accumulated Depreciation | (3,931,480) | (354,533) | 36,650 | (4,249,363) |
| Total Depreciable Capital Assets, Net | 12,713,831 | (307,388) | (23,045) | 12,383,398 |
| Business-Type Activities Capital Assets, Net | \$20,201,100 | \$3,353,463 | (\$47,279) | \$23,507,284 |

Depreciation expense was charged to governmental functions as follows:

| | |
|---|------------------|
| Governmental Activities | |
| Security of Persons and Property - Police | \$73,779 |
| Security of Persons and Property - Fire | 61,283 |
| Public Health | 10,742 |
| Leisure Time Activities | 14,034 |
| Transportation | 290,826 |
| General Government | 15,748 |
| Total Depreciation Expense - Governmental Activities | \$466,412 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2010, the General Fund had an interfund receivable, in the amount of \$31,529; \$29,281 from other governmental funds and \$2,248 from the sewer enterprise fund for short-term loans made to those funds. Of this amount, \$19,521 is not scheduled to be collected within one year.

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2010, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

| Type of Coverage | Coverage | Deductible |
|--|--------------|------------|
| Blanket Building and Personal Property | \$20,503,959 | \$1,000 |
| Special Property | 1,518,767 | 1,000 |
| General Liability | | |
| Occurrence | 2,000,000 | |
| Aggregate | 4,000,000 | |
| Employer's Liability | | |
| Occurrence | 2,000,000 | |
| Aggregate | 2,000,000 | |
| Employee Benefits | | |
| Occurrence | 2,000,000 | |
| Aggregate | 4,000,000 | |
| Public Officials Liability | | |
| Occurrence | 2,000,000 | 10,000 |
| Aggregate | 4,000,000 | 10,000 |
| Law Enforcement Liability | | |
| Occurrence | 2,000,000 | 10,000 |
| Aggregate | 4,000,000 | 10,000 |
| Auto Liability | 2,000,000 | 250/500 |
| Builders Risk | 500,000 | |

There has been no significant reduction in insurance coverage from 2009, and no insurance settlement has exceeded insurance coverage during the last three years.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2010, the City had contractual commitments as follows:

| Company | Project | Amount Remaining on Contract |
|------------------------|--|------------------------------------|
| Arcadis | Third Street Sewer Separation | \$107,611 |
| B.E.C Associates | Jefferson Storm Pump | 2,387 |
| Cam-Tech Industrial | Sewer Cleaning and Inspection | 2,605 |
| Floyd Browne | Engineer - Professional Services Consulting | 4,439 |
| Kemira Water Solutions | Ferric Chloride Testing | 11,839 |
| Mosser Construction | South Jefferson Storm Station | 58,320 |
| TTL Associates | Third Street Sewer Separation | 12,485 |
| URS Corporation | Waterworks Park | 35,000 |

NOTE 14 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Members of the member-directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2010, members in state and local classifications contributed 10 percent of covered payroll. For 2010, member and employer contribution rates were consistent across all three plans.

The City's 2010 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 5.5 percent from January 1, through February 28, 2010, and 5 percent from March 1, through December 31, 2010. The portion of the employer contribution allocated to health care for members in the combined plan was 4.73 percent from January 1, through February 28, 2010, and 4.23 percent from March 1, through December 31, 2010. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2010, 2009, and 2008 was \$175,878, \$110,654, and \$98,476, respectively. For 2010, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008. Contributions to the member-directed plan for 2009 were \$16,539 made by the City and \$11,814 made by the plan members.

B. Ohio Police and Fire Pension Fund

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2010, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers. The City's required contribution for pension obligations for police for the year ended December 31, 2010, was \$97,375, for the year ended December 31, 2009, was \$82,975, and for the year ended December 31, 2008, was \$79,860. For 2010, 72 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2010, state and local employers contributed 14 percent of covered payroll. The Ohio Revised Code currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 5.5 percent from January 1, through February 28, 2010, and 5 percent from March 1 through December 31, 2010. The portion of the employer contribution allocated to health care for members in the combined plan was 4.73 percent from January 1, through February 28, 2010, and 4.23 percent from March 1, through December 31, 2010.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2010, 2009, and 2008 was \$109,695, \$94,755, and \$118,892, respectively. For 2010, 89 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

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

B. Police and Fire Pension Fund

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

OPF provides access to postretirement healthcare coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check, or is a spouse or eligible dependent child of such person. The healthcare coverage provided by OPF meets the definition of an Other Postemployment Benefit (OPEB) as described in Government Accounting Standards Board (GASB) Statement No. 45.

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

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2010, the employer contribution allocated to the healthcare plan was 6.75 percent of covered payroll. The amount of employer contributions allocated to the healthcare plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police for the year ended December 31, 2010, was \$51,551, for the year ended December 31, 2009, was \$43,928, and for the year ended December 31, 2008, was \$42,279. For 2010, 72 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2009 and 2008.

NOTE 16 - COMPENSATED ABSENCES

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2010, was as follows:

| | Interest Rate | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 | 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% | \$22,115 | | \$4,423 | \$17,692 | \$4,423 |
| 2008 Various Purpose (Original Amount \$3,990,000) | 3.750 | 175,000 | | 5,000 | 170,000 | 5,000 |
| Total General Obligation Bonds | | 197,115 | | 9,423 | 187,692 | 9,423 |
| <u>Special Assessment Bonds</u> | | | | | | |
| 1990 South Madison Street (Original Amount \$132,500) | 7.4 | 7,000 | | 7,000 | | |
| 1994 West Second and Laurel Street (Original Amount \$143,470) | 6.22 | 37,885 | | 7,577 | 30,308 | 7,577 |
| 1995 Fulton Street (Original Amount \$48,530) | 6.5 | 18,000 | | 3,000 | 15,000 | 3,000 |
| Total Special Assessment Bonds | | 62,885 | | 17,577 | 45,308 | 10,577 |
| <u>Other Long-Term Obligations</u> | | | | | | |
| Capital Leases Payable | | 316,623 | \$1 | 69,141 | 247,482 | 72,401 |
| Compensated Absences Payable | | 135,388 | 18,289 | | 153,677 | 119,343 |
| Total Other Long-Term Obligations | | 452,011 | 18,289 | 69,141 | 401,159 | 191,744 |
| Total Governmental Activities | | \$712,011 | \$18,289 | \$96,141 | \$634,159 | \$211,744 |

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

| | Interest Rate | Balance December 31, 2009 | Additions | Reductions | Balance December 31, 2010 | Due Within One Year |
|--|---------------|---------------------------------|-------------|------------|---------------------------------|------------------------|
| <u>Business-Type Activities</u> | | | | | | |
| <u>General Obligation Bonds</u> | | | | | | |
| 2008 General Obligation Bonds (Original Amount \$3,990,000) | 3.75% | \$3,705,000 | | \$140,000 | \$3,565,000 | \$145,000 |
| <u>OPWC Loans</u> | | | | | | |
| 2002 OPWC Loans Payable (Original Amount \$28,000) | 0 | 17,500 | | 1,400 | 16,100 | 1,400 |
| 2004 OPWC Loans Payable (Original Amount \$208,350) | 0 | 151,054 | | 10,418 | 140,636 | 10,417 |
| 2004 OPWC Loans Payable (Original Amount \$40,934) | 0 | 53,359 | | 3,443 | 49,916 | 3,442 |
| Total OPWC Loans | | 221,913 | | 15,261 | 206,652 | 15,259 |
| <u>OWDA Loans</u> | | | | | | |
| 2000 OWDA Loans Payable (Original Amount \$1,027,009) | 5.54% | \$644,391 | | \$53,409 | \$590,982 | \$56,367 |
| 2003 OWDA Loans Payable (Original Amount \$5,216,972) | 3.89 | 4,030,037 | | 212,635 | 3,817,402 | 220,987 |
| 2008 OWDA Loans Payable (Original Amount \$1,779,307) | 1.00 | 2,591,541 | \$85,624 | 132,738 | 2,544,427 | |
| 2010 OWDA Loans Payable (Original Amount \$310,731) | 3.39 | | 310,731 | 9,335 | 301,396 | |
| 2010 OWDA Loans Payable (Original Amount \$3,094,348) | 1.00 | | 1,051,963 | | 1,051,963 | |
| Total OWDA Loans | | 7,265,969 | 1,448,318 | 408,117 | 8,306,170 | 277,354 |
| <u>Other Long-Term Obligations</u> | | | | | | |
| Capital Leases Payable | | 171,705 | | 21,864 | 149,841 | 23,008 |
| Compensated Absences Payable | | 101,835 | | 3,964 | 97,871 | 23,547 |
| Total Other Long-Term Obligations | | 273,540 | | 25,828 | 247,712 | 46,555 |
| Total Business-Type Activities | | \$11,466,422 | \$1,448,318 | \$589,206 | \$12,325,534 | \$484,168 |

General Obligation Bonds

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

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

Special Assessment Bonds

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

Capital Leases Payable

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

Compensated Absences

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

OPWC Loans Payable

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

OWDA Loans Payable

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

The OPWC and OWDA loans will be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans, for which amortization schedules are available, are \$206,652 and \$5,706,823, respectively. Principal and interest paid for the current year and net revenues were \$108,907 and \$283,660 for the Water enterprise fund and \$541,818 and \$1,165,796 for the Sewer enterprise fund.

The City's legal debt margin was \$14,998,201 at December 31, 2010.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 17 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2010, were as follows:

| Year | General Obligation Bonds | | Special Assessment Bonds | |
|-----------|--------------------------|-----------------|--------------------------|----------------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$9,423 | \$8,101 | \$10,577 | \$2,850 |
| 2012 | 9,423 | 7,639 | 10,577 | 2,186 |
| 2013 | 9,423 | 7,176 | 10,577 | 1,522 |
| 2014 | 9,423 | 6,713 | 10,577 | 859 |
| 2015 | 10,000 | 6,250 | 3,000 | 195 |
| 2016-2020 | 50,000 | 25,475 | | |
| 2021-2025 | 50,000 | 15,370 | | |
| 2026-2028 | 40,000 | 3,824 | | |
| Total | <u>\$187,692</u> | <u>\$80,548</u> | <u>\$45,308</u> | <u>\$7,612</u> |

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2010, from the business-type activities were as follows:

| Year | General Obligation Bonds | | OPWC Loans | OWDA Loans | |
|-----------|--------------------------|--------------------|------------------|--------------------|--------------------|
| | Principal | Interest | Principal | Principal | Interest |
| 2011 | \$145,000 | \$146,498 | \$15,259 | \$277,354 | \$179,920 |
| 2012 | 150,000 | 141,060 | 15,261 | 289,158 | 168,116 |
| 2013 | 155,000 | 135,435 | 15,260 | 301,472 | 155,800 |
| 2014 | 160,000 | 129,622 | 15,260 | 314,327 | 142,947 |
| 2015 | 160,000 | 123,622 | 15,260 | 327,742 | 129,532 |
| 2016-2020 | 895,000 | 521,163 | 76,300 | 1,725,255 | 427,451 |
| 2021-2025 | 1,110,000 | 323,545 | 54,052 | 1,173,076 | 94,673 |
| 2026-2028 | 790,000 | 72,000 | | | |
| Total | <u>\$3,565,000</u> | <u>\$1,592,945</u> | <u>\$206,652</u> | <u>\$4,408,384</u> | <u>\$1,298,439</u> |

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds and as a reduction of the liability in the enterprise funds. Principal payments in 2010 were \$69,141 for governmental funds and \$21,864 for enterprise funds.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

| | Governmental Activities | Business-Type Activities |
|-------------------------------|----------------------------|-----------------------------|
| Vehicles | \$493,000 | \$177,000 |
| Less Accumulated Depreciation | (115,734) | (23,600) |
| Total | \$377,266 | \$153,400 |

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, 2010.

| Year | Governmental Activities | | Business-Type Activities | |
|-------|-------------------------|----------|--------------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2011 | \$72,401 | \$10,872 | \$23,008 | \$7,249 |
| 2012 | 75,813 | 7,459 | 24,210 | 6,046 |
| 2013 | 47,838 | 3,885 | 25,478 | 4,781 |
| 2014 | 17,873 | 2,298 | 26,810 | 3,447 |
| 2015 | 18,808 | 1,363 | 28,212 | 2,045 |
| 2016 | 14,749 | 380 | 22,123 | 569 |
| Total | \$247,482 | \$26,257 | \$149,841 | \$24,137 |

NOTE 19 - FUND BALANCE

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

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

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|----------------------------------|----------|-----------------------|--------------------------------|
| Nonspendable for: | | | |
| Debt Retirement | \$19,521 | | \$19,521 |
| Materials and Supplies Inventory | 7,353 | \$7,098 | 14,451 |
| Total Nonspendable | 26,874 | 7,098 | 33,972 |

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 19 - FUND BALANCE (continued)

| Fund Balance | General | Other Governmental | Total Governmental Funds |
|--|------------------|-----------------------|--------------------------------|
| Restricted for: | | | |
| Cemetery Maintenance | | \$56,413 | \$56,413 |
| Debt Retirement | | 35,795 | 35,795 |
| Economic Development | | 858,102 | 858,102 |
| Fire Department Operations | | 322,895 | 322,895 |
| Police Department Operations | | 49,966 | 49,966 |
| Permanent Improvements | | 118,893 | 118,893 |
| Marine Maintenance and Operations | | 346 | 346 |
| Street Construction and Maintenance | | 349,246 | 349,246 |
| Unclaimed Monies | \$18,603 | | 18,603 |
| Total Restricted | 18,603 | 1,791,656 | 1,810,259 |
| Assigned for: | | | |
| Debt Retirement | | 5,045 | 5,045 |
| Permanent Improvements | | 778 | 778 |
| Street Construction and Maintenance | 10,950 | | 10,950 |
| Unpaid Obligations | 51,259 | | 51,259 |
| Total Assigned | 62,209 | 5,823 | 68,032 |
| Unassigned | 817,752 | | 817,752 |
| Total Fund Balance | \$925,438 | \$1,804,577 | \$2,730,015 |

NOTE 20 - INTERFUND TRANSFERS

During 2010, the General Fund made transfers to other governmental funds, in the amount of \$528,390 to subsidize activities of the various funds.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2010
(continued)

NOTE 21 - INSURANCE POOL

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

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

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

B. Federal and State Grants

For the period January 1, 2010, to December 31, 2010, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

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**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010**

| FEDERAL GRANTOR <i>Pass Through Grantor</i> Program Title | Pass Through Entity Number | Federal CFDA Number | Disbursements |
|--|---|------------------------------------|----------------------|
| UNITED STATES DEPARTMENT OF TRANSPORTATION | | | |
| FEDERAL HIGHWAY ADMINISTRATION | | | |
| <i>Passed Through Ohio Department of Transportation</i> | | | |
| Highway Planning and Construction (Federal-Aid Highway Program) | n/a | 20.205 | \$ 347,704 |
| UNITED STATES 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 | 27,640 |
| Home Investment Partnerships Program | AC-02 166-2 | 14.239 | 270,600 |
| Total - Department of Housing and Urban Development | | | 298,240 |
| UNITED STATES ENVIRONMENTAL PROTECTION AGENCY | | | |
| Direct Assistance | | | |
| Surveys, Studies, Investigations and Special Purpose Grants | n/a | 66.606 | 129,977 |
| Total Federal Financial Assistance | | | \$ 775,921 |

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2010**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) reports the City of Port Clinton's (the City's) Federal award programs' disbursements. The Schedule has been prepared on the cash basis of accounting.

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

The City has a revolving loan fund (RLF) program to provide low-interest loans to businesses to create jobs for low to moderate income persons and also to lend money to eligible persons to rehabilitate homes, for rental housing rehabilitation and down payment assistance. The 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 would be recorded as a disbursement on the accompanying 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 also included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2010, the gross amount of loans outstanding under this program was \$736,378.

Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans.

NOTE C - MATCHING REQUIREMENTS

Certain Federal programs require the City to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.



Dave Yost • Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 20, 2011, wherein we noted the City adopted Government Accounting Standards Board Statement 54. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider a significant deficiency in internal control over financial reporting. We consider finding 2010-001 to be a significant deficiency. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

We did note certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated September 20, 2011.

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

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive, flowing style.

Dave Yost
Auditor of State

September 20, 2011



Dave Yost • Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

To the Members of City Council:

Compliance

We have audited the compliance of the City of Port Clinton, Ottawa County, Ohio (the City), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2010. The summary of auditor's results section of the accompanying schedule of findings identifies each of the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Port Clinton complied, in all material respects, with the requirements referred to above that could directly and materially affect each of its major federal programs for the year ended December 31, 2010.

Internal Control over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the 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 directly and materially affect a major federal program, to determine our auditing procedures for the purpose of opining on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of opining on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program compliance requirement will not be prevented, or timely detected and corrected.

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

We noted a matter involving federal compliance not requiring inclusion in this report, that we reported to the County's management in a separate letter dated September 20, 2011.

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



Dave Yost
Auditor of State

September 20, 2011

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2010**

1. SUMMARY OF AUDITOR'S RESULTS

| | | |
|---------------------|---|--|
| (d)(1)(i) | Type of Financial Statement Opinion | Unqualified |
| (d)(1)(ii) | Were there any material control weaknesses reported at the financial statement level (GAGAS)? | No |
| (d)(1)(ii) | Were there any significant deficiencies in internal control reported at the financial statement level (GAGAS)? | Yes |
| (d)(1)(iii) | Was there any reported material noncompliance at the financial statement level (GAGAS)? | No |
| (d)(1)(iv) | Were there any material internal control weaknesses reported for major federal programs? | No |
| (d)(1)(iv) | Were there any significant deficiencies in internal control reported for major federal programs? | No |
| (d)(1)(v) | Type of Major Programs' Compliance Opinion | Unqualified |
| (d)(1)(vi) | Are there any reportable findings under § .510(a)? | No |
| (d)(1)(vii) | Major Programs (list): | Highway Planning and Construction – CFDA 20.205, Home Investment Partnership Program – CFDA 14.239. |
| (d)(1)(viii) | Dollar Threshold: Type A/B Programs | Type A: > \$ 300,000 Type B: all others |
| (d)(1)(ix) | Low Risk Auditee? | No |

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

FINDING NUMBER 2010-001

Significant Deficiency – Recording Grant Activity

In 2010 the City was the beneficiary of several Ohio Water Development Authority (OWDA) Loans and a Community Development Block Grant (CDBG) for funding assistance through Ottawa County. These monies were sent directly to the vendors by OWDA and CDBG. The City Auditor did not reflect \$45,264 of on-behalf-of payments and corresponding disbursements and posted \$25,359 twice as revenue and expense. This resulted in a net adjustment of \$19,905 to the sewer fund. The City Auditor did not reflect the CDBG grant funding of \$32,803 as revenue or an expense. Auditor of State Bulletin 2000-008 and 2002-004 prescribe recording these transactions as receipts and disbursements when the City applies for a project and has administrative responsibilities. The accompanying financial statements were adjusted to reflect these amounts in the Sewer and Special Revenue Fund Types respectively. Sound financial reporting is the responsibility of the Auditor and City Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

To ensure the City's financial statements and notes to the statements are complete and accurate, the City should adopt policies and procedures, including a final review of the statements and notes by the Auditor and Council, to identify and correct errors and omissions, as well as establishing the correct funds to present City's grant/loan activity. The Auditor can review Auditor of State Bulletins 2000-008 and 2002-004 for accounting guidance for certain on-behalf-of grants or improvement projects.

Officials' Response:

We did not receive a response from Officials' to this finding.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
DECEMBER 31, 2010**

| Finding Number | Finding Summary | Fully Corrected? | Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i> |
|----------------|---|------------------|--|
| 2009-001 | Not recording on-behalf-of grant revenues and expenditures | No | Repeated as Finding 2010-001 in this report. |
| 2009-002 | OMB Circular A-133 §.200 for not filing a single audit report within nine months of fiscal year end | Yes | |

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Dave Yost • Auditor of State

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
SEPTEMBER 29, 2011