CITY OF PORT CLINTON
Port Clinton, Ohio

FINANCIAL STATEMENTS
December 31, 2007

Mary Taylor, CPA
Auditor of State

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

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Clifton Gunderson LLP, for the audit period January 1, 2007 through December 31, 2007. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

Mary Taylor

Mary Taylor, CPA
Auditor of State

December 2, 2008

88 E. Broad St. / Fifth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us

This Page is Intentionally Left Blank.

City of Port Clinton
External Financial Statements
For the Year Ended December 31, 2007

Table of Contents

Table of Contents 1

Independent Auditor's Report 2

Management's Discussion and Analysis 4

Basic Financial Statements

Government-Wide Financial Statements

Statement of Net Assets 11

Statement of Activities 12

Fund Financial Statements

Balance Sheet - Governmental Funds 14

Reconciliation of Total Governmental Fund Balance to Net Assets of Governmental Activities 15

Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Funds 16

Reconciliation of Statement of Revenues, Expenditures, and Change in Fund Balance of Governmental Funds to Statement of Activities 17

Statement of Revenues, Expenditures, and Change in Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual - General Fund 18

Statement of Fund Net Assets - Proprietary Funds 19

Statement of Revenues, Expenses, and Change in Fund Net Assets - Proprietary Funds 20

Statement of Cash Flows - Proprietary Funds 21

Statement of Fiduciary Assets and Liabilities - Agency Funds 22

Notes to the Basic Financial Statements 23

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ohio, as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

City of Port Clinton
Ottawa County

In accordance with *Government Auditing Standards,* we have also issued a report dated November 6, 2008 on our consideration of the City's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

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

Clifton Gunderson LLP

Toledo, Ohio
November 6, 2008

The discussion and analysis of the City of Port Clinton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2007. 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 $628,725, less than 4 percent. Governmental activities increased less than 2 percent and business-type activities increased 6 percent, neither of which is significant.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2007. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

Proprietary Funds - The City has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities on the government-wide financial statements and use the accrual basis of accounting. The City uses enterprise funds to account for water and sewer operations. The internal service fund is an accounting device used to accumulate and allocate internal costs among other programs and activities. The City's internal service fund accounted for the City's self-insured program for employee heath care benefits. The City discontinued the self-insured program in 2005 and once final settlement has been made with the third-party administrator, this fund will be closed.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2007 and 2006.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets						
Current and Other Assets	$5,699,690	$5,896,478	$2,178,137	$1,746,409	$7,877,827	$7,642,887
Capital Assets, Net	5,827,620	5,591,172	13,105,764	11,602,503	18,933,384	17,193,675
Total Assets	11,527,310	11,487,650	15,283,901	13,348,912	26,811,211	24,836,562
Liabilities						
Current and Other Liabilities	1,390,367	1,409,708	2,032,631	242,231	3,422,998	1,651,939
Long-Term Liabilities	892,881	993,773	5,583,359	5,907,602	6,476,240	6,901,375
Total Liabilities	2,283,248	2,403,481	7,615,990	6,149,833	9,899,238	8,553,314
Net Assets						
Invested in Capital Assets, Net of Related Debt	4,926,199	4,943,001	6,405,035	5,773,847	11,331,234	10,716,848
Restricted	2,199,587	2,232,476	0	0	2,199,587	2,232,476
Unrestricted	2,118,276	1,907,588	1,262,876	1,426,336	3,381,152	3,333,924
Total Net Assets	$9,244,062	$9,083,065	$7,667,911	$7,200,183	$16,911,973	$16,283,248

As can be seen in the above table, there was very little change from the prior year for governmental activities which reflect an overall increase in net assets of less than 2 percent.

There were several changes of note for the business-type activities. The increase in current and other assets is primarily reflected in an increase in cash and cash equivalents. Charges for services increased somewhat for both water and sewer activities due to rate increases. Net capital assets increased $1.5 million due to various construction activities which were still in progress at year end. Current and other liabilities reflect an increase of $1.7 million due to an increase in contracts payable due to construction activities and notes payable, the proceeds of which were used for the construction projects.

Table 2 reflects the change in net assets for 2007 and 2006.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program Revenues						
Charges for Services	$387,333	$246,281	$3,707,997	$3,555,929	$4,095,330	$3,802,210
Operating Grants, Contributions, and Interest	577,210	694,596	0	0	577,210	694,596
Capital Grants and Contributions	0	10,000	84,756	44,126	84,756	54,126
Total Program Revenues	964,543	950,877	3,792,753	3,600,055	4,757,296	4,550,932
General Revenues						
Property Taxes Levied for General Purposes	435,111	697,873	0	0	435,111	697,873
Municipal Income Taxes	2,182,541	2,200,760	0	0	2,182,541	2,200,760
Other Local Taxes	123,142	143,997	0	0	123,142	143,997
Grants and Entitlements not Restricted to Specific Programs	743,030	824,986	0	0	743,030	824,986
Franchise Fees	66,316	16,288	0	0	66,316	16,288
Interest	172,083	167,375	0	0	172,083	168,479
Other	44,483	318,363	8,625	39,482	53,108	356,741
Total General Revenues	3,766,706	4,369,642	8,625	39,482	3,775,331	4,409,124
Total Revenues	4,731,249	5,320,519	3,801,378	3,639,537	8,532,627	8,960,056
Program Expenses						
Security of Persons and Property						
Police	1,649,581	1,638,105	0	0	1,649,581	1,638,105
Fire	179,705	192,169	0	0	179,705	192,169
Public Health	217,082	227,658	0	0	217,082	227,658
Leisure Time Activities	121,145	132,437	0	0	121,145	132,437
Community Environment	148,151	240,653	0	0	148,151	240,653
Transportation	729,891	740,407	0	0	729,891	740,407
General Government	1,452,038	1,320,740	0	0	1,452,038	1,320,740
Interest and Fiscal Charges	64,749	55,886	0	0	64,749	55,886
Water	0	0	1,354,259	1,316,360	1,354,259	1,316,360
Sewer	0	0	1,987,301	1,951,200	1,987,301	1,951,200
Total Expenses	4,562,342	4,548,055	3,341,560	3,267,560	7,903,902	7,815,615
Increase in Net Assets Before Transfers	168,907	772,464	459,818	371,977	628,725	1,144,441
Transfers	(7,910)	(1,592)	7,910	1,592	0	0
Increase in Net Assets	160,997	770,872	467,728	373,569	628,725	1,144,441
Net Assets Beginning of Year	9,083,065	8,312,193	7,200,183	6,826,614	16,283,248	15,138,807
Net Assets End of Year	$9,244,062	$9,083,065	$7,667,911	$7,200,183	$16,911,973	$16,283,248

For governmental activities, although program revenues remained very comparable to the prior year in total, there was an increase in charges for services related to both the police and fire departments as well as charges to the water and sewer utilities for overhead costs (the utilities were not charged in the prior year). The decrease in operating grants and contributions was primarily due to fewer resources for the transportation program in 2007. There were a number of decreases in general revenues which led to an overall decrease in general revenues of almost 14 percent. There was a decrease in property tax revenues, unrestricted grants and entitlements (due to a large inheritance tax receipt in the prior year), and other revenue (due to the sale of property in the prior year).

The City's total expenses illustrate amounts quite comparable to 2006. Safety related activities (police and fire), as expected, continue to account for the greatest 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 continue to make up over 99 percent of total revenues. This is due to charges for services for water and sewer services. Charges for services revenues increased slightly due to rate increases. Changes in expenses were not significant.

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

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2007	2006	2007	2006
Security of Persons and Property				
Police	$1,649,581	$1,638,105	$1,572,373	$1,583,911
Fire	179,705	192,169	61,286	86,147
Public Health	217,082	227,658	169,428	173,858
Leisure Time Activities	121,145	132,437	76,685	91,514
Community Environment	148,151	240,653	(61,231)	22,130
Transportation	729,891	740,407	387,498	295,551
General Government	1,452,038	1,320,740	1,327,011	1,288,181
Interest and Fiscal Charges	64,749	55,886	64,749	55,886
Total Expenses	$4,562,342	$4,548,055	$3,597,799	$3,597,178

With general revenues providing for 79 percent of the City's programs, the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As noted above, the City's police operations are substantially funded through general revenues. The same can be said for general government operations. The fire department, the public health program, 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 cemetery lot sales for public health and sports league fees, parking fees, and concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental funds are the General Fund and the General Bond Retirement Fund. The General Fund experienced a $276,000 increase in fund balance. There were slight increases in both revenues and expenditures in 2007; however, there were fewer transfers to subsidize activities in other funds. Due to debt payments made during 2007, the General Bond Retirement Fund had a decrease in fund balance which left the fund with a deficit fund balance at year end. Transfers will be required to restore the fund to a zero or positive fund balance.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. Both funds reflect an operating income for 2007 as well as a moderate increase in net assets.

BUDGETARY HIGHLIGHTS

The City prepares an annual budget of revenues and expenditures/expenses for all funds of the City for use by City officials and department heads and such other budgetary documents as are required by State statute. This includes the annual appropriations ordinance which is passed by City Council before April 1 each year. The City operates under a temporary budget for the first three months of each year.

The City's most significant budgeted fund is the General Fund. For revenues, changes from the original budget to the final budget and from the final budget to actual revenues received were not significant. For expenditures, there was no change from the original budget to the final budget and differences between the final budget and actual expenditures were not significant.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2007, was $4,926,199 and $6,405,035, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted of a fire truck and police cruisers. There were no disposals for the year. For business-type activities, the primary increase was related to continued improvements at the wastewater treatment plant. For further information regarding the City's capital assets, refer to Note 10 to the basic financial statements.

Debt - At December 31, 2007, the City had $434,100 in outstanding bond anticipation notes as well as $218,302 in general obligation bonds and $97,407 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was $1,445,000 in outstanding bond anticipation notes, $39,292 in general obligation bonds, $252,432 in OPWC loans, and $5,174,446 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, 18, and 19 to the basic financial statements.

CURRENT ISSUES

Current issues and events in the City include the following:

- The City began collecting revenues from a new 1.9 mill levy for the fire department. The levy is expected to generate approximately $230,000 per year for the next five years.

- The City has identified several streets that will be resurfaced in 2008, including Ottawa Drive and portions of Taft Street, Sixth Street, Jefferson Street, Monroe Street, and Second Street.

- The City has changed the zoning of approximately fourteen acres of land at the intersection of the Portage River and Lake Erie. Waterworks Park is now zoned as central business district to allow for commercial improvements on the property. A referendum on the ordinance to change the zoning was placed on the November 2007 ballot and 61 percent of voters decided to uphold the zoning change. The City has issued twenty-one requests for qualifications to developers to determine if there is interest in constructing a hotel, convention center, indoor waterpark, and public marina on the property.

- The City is in the process of increasing the capacity of its wastewater treatment plant. In 2007, the City upgraded the Brooklyn Street Pump Station and extended a sewer line down Lakeshore Drive in order to serve a variety of customers in Erie Township, including Camp Perry, Fenner Dunlop, and the AlliedWaste Landfill. This investment should generate a significant amount of future sewer revenues.

- Unfortunately, a number of local businesses have closed, including East of Chicago Pizza and Heinemann Distributing. The U.S. Gypsum Company has laid off approximately sixty employees.

REQUEST FOR INFORMATION

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

City of Port Clinton
Statement of Net Assets
December 31, 2007

	Governmental Activities	Business-Type Activities	Total
Assets			
Equity in Pooled Cash and Cash Equivalents	$2,617,353	$1,536,027	$4,153,380
Cash and Cash Equivalents with Fiscal Agent	17,246	0	17,246
Accounts Receivable	60,667	568,425	629,092
Accrued Interest Receivable	17,640	0	17,640
Due from Other Governments	524,341	7,968	532,309
Municipal Income Taxes Receivable	736,089	0	736,089
Other Local Taxes Receivable	2,970	0	2,970
Internal Balances	(3)	3	0
Prepaid Items	39,917	9,413	49,330
Materials and Supplies Inventory	21,533	56,301	77,834
Property Taxes Receivable	861,312	0	861,312
Notes Receivable	509,945	0	509,945
Special Assessments Receivable	290,680	0	290,680
Nondepreciable Capital Assets	602,803	1,981,009	2,583,812
Depreciable Capital Assets, Net	5,224,817	11,124,755	16,349,572
Total Assets	11,527,310	15,283,901	26,811,211
Liabilities			
Accrued Wages Payable	45,951	15,706	61,657
Accounts Payable	39,551	24,440	63,991
Contracts Payable	22,532	403,440	425,972
Retainage Payable	5,174	49,331	54,505
Due to Other Governments	94,736	43,506	138,242
Deferred Revenue	823,192	0	823,192
Accrued Interest Payable	25,131	92	25,223
Notes Payable	334,100	1,445,000	1,779,100
Deposits Held and Due to Others	0	51,116	51,116
Long-Term Liabilities			
Due Within One Year	439,871	363,549	803,420
Due in More Than One Year	453,010	5,219,810	5,672,820
Total Liabilities	2,283,248	7,615,990	9,899,238
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,926,199	6,405,035	11,331,234
Restricted for			
Debt Service	112,144	0	112,144
Capital Projects	236,925	0	236,925
Transportation	754,362	0	754,362
Community Environment	590,650	0	590,650
Other Purposes	505,506	0	505,506
Unrestricted	2,118,276	1,262,876	3,381,152
Total Net Assets	$9,244,062	$7,667,911	$16,911,973

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

City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2007

		Program Revenues		
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
Governmental Activities				
Security of Persons and Property				
Police	$1,649,581	$51,137	$26,071	$0
Fire	179,705	117,279	1,140	0
Public Health	217,082	47,654	0	0
Leisure Time Activities	121,145	36,850	7,610	0
Community Environment	148,151	0	209,382	0
Transportation	729,891	9,386	333,007	0
General Government	1,452,038	125,027	0	0
Interest and Fiscal Charges	64,749	0	0	0
Total Governmental Activities	4,562,342	387,333	577,210	0
Business-Type Activities				
Water	1,354,259	1,489,403	0	84,756
Sewer	1,987,301	2,218,594	0	0
Total Business-Type Activities	3,341,560	3,707,997	0	84,756
Total	$7,903,902	$4,095,330	$577,210	$84,756

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year

Net Assets End of Year

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

Net (Expense) Revenue and Change in Net Assets		
Governmental Activities	Business-Type Activities	Total
($1,572,373)	$0	($1,572,373)
(61,286)	0	(61,286)
(169,428)	0	(169,428)
(76,685)	0	(76,685)
61,231	0	61,231
(387,498)	0	(387,498)
(1,327,011)	0	(1,327,011)
(64,749)	0	(64,749)
(3,597,799)	0	(3,597,799)
0	219,900	219,900
0	231,293	231,293
0	451,193	451,193
(3,597,799)	451,193	(3,146,606)
182,509	0	182,509
252,602	0	252,602
2,182,541	0	2,182,541
123,142	0	123,142
743,030	0	743,030
66,316	0	66,316
172,083	0	172,083
44,483	8,625	53,108
3,766,706	8,625	3,775,331
(7,910)	7,910	0
3,758,796	16,535	3,775,331
160,997	467,728	628,725
9,083,065	7,200,183	16,283,248
$9,244,062	$7,667,911	$16,911,973

City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2007

	General	General Bond Retirement	Other Governmental	Total Governmental Funds
Assets				
Equity in Pooled Cash and Cash Equivalents	$1,193,642	$5,045	$1,400,936	$2,599,623
Cash and Cash Equivalents with Fiscal Agent	0	17,237	0	17,237
Accounts Receivable	59,467	0	1,200	60,667
Accrued Interest Receivable	17,640	0	0	17,640
Due from Other Governments	268,531	0	255,810	524,341
Municipal Income Taxes Receivable	736,089	0	0	736,089
Other Local Taxes Receivable	2,970	0	0	2,970
Interfund Receivable	35,129	0	13,103	48,232
Prepaid Items	32,023	0	7,894	39,917
Materials and Supplies Inventory	10,198	0	11,335	21,533
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	17,730	0	0	17,730
Property Taxes Receivable	602,613	0	258,699	861,312
Notes Receivable	0	0	509,945	509,945
Special Assessments Receivable	0	0	290,680	290,680
Total Assets	$2,976,032	$22,282	$2,749,602	$5,747,916
Liabilities and Fund Balance				
Liabilities				
Accrued Wages Payable	$39,424	$0	$6,527	$45,951
Accounts Payable	18,822	0	20,729	39,551
Contracts Payable	3,318	0	19,214	22,532
Retainage Payable	0	0	5,174	5,174
Due to Other Governments	84,409	0	10,327	94,736
Interfund Payable	13,103	0	35,129	48,232
Deferred Revenue	1,172,690	0	747,526	1,920,216
Notes Payable	0	159,100	175,000	334,100
Total Liabilities	1,331,766	159,100	1,019,626	2,510,492
Fund Balance				
Reserved for Interfund Receivable	31,548	0	0	31,548
Reserved for Unclaimed Monies	17,730	0	0	17,730
Reserved for Notes Receivable	0	0	493,326	493,326
Reserved for Encumbrances	109,249	0	234,907	344,156
Unreserved, Reported in				
General Fund	1,485,739	0	0	1,485,739
Special Revenue Funds	0	0	1,023,697	1,023,697
Debt Service Funds (Deficit)	0	(136,818)	43,660	(93,158)
Capital Projects Funds (Deficit)	0	0	(65,614)	(65,614)
Total Fund Balance (Deficit)	1,644,266	(136,818)	1,729,976	3,237,424
Total Liabilities and Fund Balance	$2,976,032	$22,282	$2,749,602	$5,747,916

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

City of Port Clinton
Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
December 31, 2007

Total Governmental Fund Balance		$3,237,424
Amounts reported for governmental activities on the statement of net assets are different because of the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		5,827,620
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:		
Accounts Receivable	12,535	
Accrued Interest Receivable	11,984	
Due from Other Governments	427,137	
Municipal Income Taxes Receivable	315,962	
Other Local Taxes Receivable	606	
Property Taxes Receivable	38,120	
Special Assessments Receivable	290,680	
		1,097,024
An internal balance is recorded in governmental activities to reflect underpayments to the internal service fund by the business-type activties.		(3)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Accrued Interest Payable	(25,131)	
Notes Payable	(100,000)	
General Obligations Bonds Payable	(218,302)	
Special Assessment Bonds Payable	(97,407)	
Capital Leases Payable	(358,688)	
Compensated Absences Payable	(118,484)	
		(918,012)
An internal service fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		9
Net Assets of Governmental Activities		$9,244,062

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

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2007

	General	General Bond Retirement	Other Governmental	Total Governmental Funds
Revenues				
Property Taxes	$591,362	$0	$240,785	$832,147
Municipal Income Taxes	2,184,884	0	0	2,184,884
Other Local Taxes	122,536	0	13,975	136,511
Special Assessments	0	0	19,570	19,570
Charges for Services	258,977	0	101,736	360,713
Fees, Licenses, and Permits	86,948	0	0	86,948
Fines and Forfeitures	9,324	0	3,241	12,565
Intergovernmental	702,079	0	515,590	1,217,669
Interest	155,549	8,271	73,643	237,463
Other	56,759	0	6,659	63,418
Total Revenues	4,168,418	8,271	975,199	5,151,888
Expenditures				
Current:				
Security of Persons and Property				
Police	1,566,847	0	82,279	1,649,126
Fire	6,926	0	128,419	135,345
Public Health	206,474	0	0	206,474
Leisure Time Activities	133,226	0	0	133,226
Community Environment	6,195	0	141,316	147,511
Transportation	0	0	343,145	343,145
General Government	1,405,398	0	0	1,405,398
Capital Outlay	0	375,000	343,630	718,630
Debt Service:				
Principal Retirement	29,956	230,456	20,000	280,412
Current Refunding	0	159,100	0	159,100
Interest and Fiscal Charges	0	30,904	11,148	42,052
Total Expenditures	3,355,022	795,460	1,069,937	5,220,419
Excess of Revenues Over (Under) Expenditures	813,396	(787,189)	(94,738)	(68,531)
Other Financing Sources (Uses)				
Proceeds of Notes	0	100,000	0	100,000
Current Refunding	0	(100,000)	0	(100,000)
Inception of Capital Lease	84,420	0	0	84,420
Transfers In	0	446,971	469,291	916,262
Transfers Out	(621,325)	0	(302,847)	(924,172)
Total Other Financing Sources (Uses)	(536,905)	446,971	166,444	76,510
Change in Fund Balance	276,491	(340,218)	71,706	7,979
Fund Balance Beginning of Year	1,367,775	203,400	1,658,270	3,229,445
Fund Balance (Deficit) End of Year	$1,644,266	($136,818)	$1,729,976	$3,237,424

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

City of Port Clinton
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2007

Change in Fund Balance - Total Governmental Funds		$7,979
Amounts reported for governmental activities on the statement of activities are different because of the following:		
Governmental funds report capital outlays as expenditures. However, on the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current year.		
Capital Outlay- Nondepreciable Capital Assets	86,321	
Capital Outlay- Depreciable Capital Assets	554,497	
Depreciation	(404,370)	
		236,448
Revenues on the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.		
Property Taxes	(397,036)	
Municipal Income Taxes	(2,343)	
Other Local Taxes	606	
Special Assessments	(19,570)	
Charges for Services	140	
Fees, Licenses, and Permits	(16,288)	
Intergovernmental	29,004	
Interest	(15,152)	
		(420,639)
The inception of a capital lease is reported as an other financing source in the governmental funds but increases long-term liabilities on the statement of net assests.		(84,420)
Repayment of principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities on the statement of net assets.		
Notes Payable	259,100	
General Obligation Bonds Payable	186,801	
Special Assessment Bonds Payable	15,945	
Capital Leases Payable	77,666	
		539,512
Note proceeds are other financing sources in the governmental funds, but the issuance increases long-term liabilities on the statement of net assets.		(100,000)
Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets.		(22,697)
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.		4,900
The internal service fund used by management to charge the cost of health insurance services to individual funds is not reported on the statement of activities. Governmental expenditures and related internal service fund revenues are eliminated. The change for governmental funds is reported for the year.		(86)
Change in Net Assets of Governmental Activities		$160,997

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

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Over (Under)
	Original	Final	Actual	
Revenues				
Property Taxes	$505,520	$530,720	$591,362	$60,642
Municipal Income Taxes	2,159,901	2,185,000	2,175,948	(9,052)
Other Local Taxes	162,803	137,000	122,400	(14,600)
Charges for Services	295,518	349,300	257,904	(91,396)
Fees, Licenses, and Permits	5,847	44,970	42,406	(2,564)
Fines and Forfeitures	5,942	12,000	9,324	(2,676)
Intergovernmental	732,257	627,182	692,984	65,802
Interest	98,038	82,500	127,213	44,713
Other	263,574	590,328	57,560	(532,768)
Total Revenues	4,229,400	4,559,000	4,077,101	(481,899)
Expenditures				
Current:				
Security of Persons and Property				
Police	1,617,282	1,598,582	1,525,679	72,903
Fire	11,270	11,270	2,757	8,513
Public Health	236,782	228,782	207,114	21,668
Leisure Time Activities	171,392	157,892	139,614	18,278
Community Environment	7,045	7,045	6,505	540
General Government	1,533,656	1,573,856	1,486,385	87,471
Total Expenditures	3,577,427	3,577,427	3,368,054	209,373
Excess of Revenues Over Expenditures	651,973	981,573	709,047	(272,526)
Other Financing Sources (Uses)				
Advances In	77,242	65,000	55,386	(9,614)
Advances Out	(65,000)	(65,000)	(52,000)	13,000
Transfers In	347,193	29,835	0	(29,835)
Transfers Out	(669,291)	(669,291)	(613,415)	55,876
Total Other Financing Sources (Uses)	(309,856)	(639,456)	(610,029)	29,427
Change in Fund Balance	342,117	342,117	99,018	(243,099)
Fund Balance Beginning of Year	759,255	759,255	759,255	0
Prior Year Encumbrances Appropriated	165,809	165,809	165,809	0
Fund Balance End of Year	$1,267,181	$1,267,181	$1,024,082	($243,099)

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

City of Port Clinton
Statement of Fund Net Assets
Proprietary Funds
December 31, 2007

	Business-Type Activities			Governmental Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Assets				
Current Assets				
Equity in Pooled Cash and Cash Equivalents	$375,627	$1,109,284	$1,484,911	$0
Cash and Cash Equivalents with Fiscal Agent	0	0	0	9
Accounts Receivable	210,812	357,613	568,425	0
Due from Other Governments	7,493	475	7,968	0
Prepaid Items	6,667	2,746	9,413	0
Materials and Supplies Inventory	17,717	38,584	56,301	0
Total Current Assets	618,316	1,508,702	2,127,018	9
Non-Current Assets				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	51,116	0	51,116	0
Nondepreciable Capital Assets	205,298	1,775,711	1,981,009	0
Depreciable Capital Assets, Net	1,820,349	9,304,406	11,124,755	0
Total Non-Current Assets	2,076,763	11,080,117	13,156,880	0
Total Assets	2,695,079	12,588,819	15,283,898	9
Liabilities				
Current Liabilities				
Accrued Wages Payable	5,330	10,376	15,706	0
Accounts Payable	1,136	23,304	24,440	0
Contracts Payable	987	402,453	403,440	0
Retainage Payable	0	49,331	49,331	0
Due to Other Governments	13,506	30,000	43,506	0
Accrued Interest Payable	6	86	92	0
Notes Payable	0	1,445,000	1,445,000	0
General Obligation Bonds Payable	2,679	36,613	39,292	0
OPWC Loans Payable	1,514	13,746	15,260	0
OWDA Loans Payable	47,949	196,866	244,815	0
Capital Leases Payable	18,968	18,967	37,935	0
Compensated Absences Payable	8,624	17,623	26,247	0
Total Current Liabilities	100,699	2,244,365	2,345,064	0
Non-Current Liabilities				
Deposits Held and Due to Others	51,116	0	51,116	0
OPWC Loans Payable	24,333	212,839	237,172	0
OWDA Loans Payable	694,996	4,234,635	4,929,631	0
Compensated Absences Payable	11,423	41,584	53,007	0
Total Non-Current Liabilities	781,868	4,489,058	5,270,926	0
Total Liabilities	882,567	6,733,423	7,615,990	0
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,235,208	5,169,827	6,405,035	0
Unrestricted	577,304	685,569	1,262,873	9
Total Net Assets	$1,812,512	$5,855,396	7,667,908	$9
Net assets reported for business-type activities on the statement of net assets are different because they incude a proportionate share of the net assets of the internal service fund.			3	
Net assets of business-type activities			$7,667,911	

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

City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities			Governmental Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Operating Revenues				
Charges for Services	$1,489,403	$2,218,594	$3,707,997	$0
Other	6,584	2,041	8,625	2,540
Total Operating Revenues	1,495,987	2,220,635	3,716,622	2,540
Operating Expenses				
Personnel Services	381,601	865,727	1,247,328	0
Contractual Services	12,438	368,719	381,157	0
Materials and Supplies	792,960	277,607	1,070,567	0
Other	60,000	60,000	120,000	2,671
Depreciation	61,628	232,724	294,352	0
Total Operating Expenses	1,308,627	1,804,777	3,113,404	2,671
Operating Income (Loss)	187,360	415,858	603,218	(131)
Non-Operating Revenues (Expenses)				
Interest Revenue	0	0	0	14
Interest Expense	(45,619)	(182,506)	(228,125)	0
Total Non-Operating Revenues (Expenses)	(45,619)	(182,506)	(228,125)	14
Income (Loss) before Capital Contributions and Transfers	141,741	233,352	375,093	(117)
Capital Contributions	84,756	0	84,756	0
Transfers In	3,955	3,955	7,910	0
Change in Net Assets	230,452	237,307	467,759	(117)
Net Assets Beginning of Year	1,582,060	5,618,089		126
Net Assets End of Year	$1,812,512	$5,855,396		$9

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net loss of the internal service fund.	(31)
Change in net assets of business-type activities	$467,728

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

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2007

	Business-Type Activities			Governmental Activity
	Water	Sewer	Total Enterprise Funds	Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
Cash Flows from Operating Activities				
Cash Received from Customers	$1,475,602	$2,193,590	$3,669,192	$0
Cash Received from Other Revenues	6,368	1,566	7,934	2,540
Cash Payments for Personal Services	(375,853)	(853,189)	(1,229,042)	0
Cash Payments for Contractual Services	(12,869)	(377,633)	(390,502)	0
Cash Payments to Vendors	(781,593)	(355,433)	(1,137,026)	0
Cash Payments for Other Expenses	(60,000)	(60,000)	(120,000)	(2,671)
Net Cash Provided by (Used for) Operating Activities	251,655	548,901	800,556	(131)
Cash Flows from Noncapital Financing Activities				
Grants	77,479	0	77,479	0
Transfers In	3,955	3,955	7,910	0
Net Cash Provided by (Used for) Noncapital Financing Activities	81,434	3,955	85,389	0
Cash Flows from Capital and Related Financing Activities				
Principal Paid on General Obligation Bonds	(5,145)	(70,323)	(75,468)	
Principal Paid on OPWC Loans	(1,515)	(13,746)	(15,261)	0
Principal Paid on OWDA Loans	(45,432)	(189,426)	(234,858)	0
Lease Principal	(18,090)	(18,089)	(36,179)	0
Interest Paid on General Obligation Bonds	(263)	(3,577)	(3,840)	0
Interest Paid on OWDA Loans	(43,676)	(178,740)	(222,416)	0
Lease Interest	(1,798)	(1,799)	(3,597)	
Bond Anticipation Notes Issued	0	1,445,000	1,445,000	0
Acquisition of Capital Assets	(171,799)	(1,177,795)	(1,349,594)	0
Net Cash Used for Capital and Related Financing Activities	(287,718)	(208,495)	(496,213)	0
Cash Flows from Investing Activities				
Interest	0	0	0	14
Net Increase (Decrease) in Cash and Cash Equivalents	45,371	344,361	389,732	(117)
Cash and Cash Equivalents Beginning of Year	381,372	764,923	1,146,295	126
Cash and Cash Equivalents End of Year	$426,743	$1,109,284	$1,536,027	$9
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	187,360	415,858	603,218	(131)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Depreciation	61,628	232,724	294,352	0
Provision for Uncollectible Accounts	(1,542)	(10,732)	(12,274)	0
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(12,259)	(14,272)	(26,531)	0
Increase in Due from Other Governments	(216)	(475)	(691)	0
(Increase) Decrease in Prepaid Items	(272)	160	(112)	0
(Increase) Decrease in Materials and Supplies Inventory	21,959	(15,997)	5,962	0
Increase in Accrued Wages Payable	1,321	1,474	2,795	0
Decrease in Accounts Payable	(10,926)	(9,340)	(20,266)	0
Decrease in Contracts Payable	(3,739)	(60,247)	(63,986)	0
Decrease in Retainage Payable	0	(1,226)	(1,226)	0
Increase in Due to Other Governments	4,083	10,864	14,947	0
Increase in Compensated Absences Payable	198	110	308	0
Increase in Deposits Held and Due to Others	4,060	0	4,060	0
Net Cash Provided by (Used for) Operating Activities	$251,655	$548,901	$800,556	($131)

Non-Cash Capital Transaction

At December 31, 2007, the Water enterprise fund had a receivable for grants related to capital assets, in the amount of $7,277.

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

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2007

Assets	
Equity in Pooled Cash and Cash Equivalents	$22,202
Liabilities	
Undistributed Assets	$22,202

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

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

A. The City

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

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

The City of Port Clinton is divided into various departments and financial management and control systems. Services provided include police protection, 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 2007.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

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

Proprietary Funds

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

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

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

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

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the City on a cost reimbursement basis. The City's internal service fund accounts for monies received for the activities of the self insurance program for employee health benefits. The City discontinued the self insurance program in 2005.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are not available to support the City's own programs. The City did not have any trust funds in 2007. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenues - Exchange and Nonexchange Transactions

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

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

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

Deferred Revenues

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

Property taxes for which there was an enforceable legal claim at December 31, 2007, but were levied to finance 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Budgetary Process

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

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

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

F. Cash and Investments

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

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

During 2007, the City's investments included nonnegotiable certificates of deposit, repurchase agreements, mutual funds, federal agency securities, and STAR Ohio. Nonnegotiable certificates of deposit and repurchase agreements are reported at cost. Investments are reported at fair value, which is based on current share price or quoted market price. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2007.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2007 was $155,549, which includes $89,929 assigned from other City funds.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2007, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Inventory

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

I. Restricted Assets

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

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

J. Capital Assets

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

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Description	Estimated Lives
Land Improvements	20 years
Buildings and Improvements	15-45 years
Furniture, Fixtures, and Equipment	5-20 years
Vehicles	6-15 years
Streets	20-40 years
Water, Sewer, and Storm Sewer Lines	50 years

K. Interfund Assets/Liabilities

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

L. Compensated Absences

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

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

M. Accrued Liabilities and Long-Term Obligations

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

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Net assets restricted for other purposes consists of various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. As of December 31, 2007, there were no net assets restricted by enabling legislation.

O. Fund Balance Reserves

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

P. Operating Revenues and Expenses

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

Q. Capital Contributions

Capital contributions arise from contributions from other governments.

R. 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 proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

S. Estimates

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

NOTE 3 - NEW ACCOUNTING PRONOUNCEMENTS

For 2007, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions", GASB Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues", and GASB Statement No. 50, "Pension Disclosures".

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by requiring systematic, accrual-basis measurement and recognition of OPEB costs over a period that approximates employees' years of service and providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan. An OPEB liability at transition was determined in accordance with this statement for both the Ohio Public Employees Retirement System and the Ohio Police and Fire Pension System postemployment healthcare plans, in the amount of $10,483 and $12,918, respectively, which are the same as the previously reported liabilities.

GASB Statement No. 48 addresses how to account for the exchange of an interest in expected cash flows from collecting specific receivables or specific future revenues for immediate cash payments. The statement established criteria used to determine whether the transaction should be recorded as revenue or as a liability (a sale or a collateralized borrowing). The implementation of this statement did not result in any change to the financial statements.

GASB Statement No. 50 requires employers contributing to defined benefit pension plans to include the legal or contractual maximum contribution rates in the notes to the financial statements. The implementation of this statement did not result in any change to the financial statements.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2007, the General Bond Retirement debt service fund and the Second and Laurel capital projects fund had a deficit fund balance, in the amount of $136,818 and $64,680, respectively, which resulted from adjustments for accrued liabilities. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE (continued)

B. Compliance

The following accounts had expenditures/expenses in excess of appropriations for the year ended December 31, 2007.

Fund/Department/Object	Appropriations	Expenditures/Expenses	Excess
Governmental Activities			
General Bond Retirement			
Principal Retirement	$408,250	$667,341	$259,091
Business Type Activities			
Water Fund			
Capital Outlay	223,170	323,909	100,739
Principal Retirement	50,632	52,092	1,460
Sewer Fund			
Personnel Services	839,454	853,743	14,289

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).

2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).

3. Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

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

	Change in Fund Balance
GAAP Basis	$276,491
Increases (Decreases) Due To	
Revenue Accruals:	
Accrued 2006, Received in Cash 2007	450,929
Accrued 2007, Not Yet Received in Cash	(501,517)
Expenditure Accruals:	
Accrued 2006, Paid in Cash 2007	(134,379)
Accrued 2007, Not Yet Paid in Cash	145,973
Cash Adjustments:	
Unrecorded Activity 2006	25,797
Unrecorded Activity 2007	(67,578)
Prepaid Items	14,267
Materials and Supplies Inventory	5,361
Advances In	55,386
Advances Out	(52,000)
Encumbrances Outstanding at Year End (Budget Basis)	(119,712)
Budget Basis	$99,018

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the Untied 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.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, $291,354 of the City's bank balance of $800,839 was exposed to custodial credit risk because it was uninsured and uncollateralized. Although all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least 105 percent of the deposits being secured.

Investments

As of December 31, 2007, the City had the following investments:

	Fair Value	Maturity
Repurchase Agreement	$2,423,726	1/2/08
Mutual Funds	8,381	47.98 days
Federal Home Loan Bank Notes	229,975	1/29/09
Federal Home Loan Bank Notes	225,180	6/12/09
Federal Home Loan Bank Notes	255,649	9/18/09
STAR Ohio	356,364	41 days
Total Investments	$3,499,275	

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 securities underlying the repurchase agreement (Federal Home Loan Mortgage Corporation Notes), the mutual funds, and the federal agency securities carry a rating of AAA by Moodys. STAR Ohio carries a rating of AAA by Standard and Poor's. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires that the market value of repurchase agreements in eligible securities exceed the principal value of the agreement by at least 2 percent, be marked to market daily, and that they be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service. Mutual funds must consist of qualified securities or repurchase agreements secured by such securities and have the highest rating by at least one nationally recognized standard rating service. STAR Ohio must maintain the highest rating provided by at least one nationally recognized standard rating service.

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

For an investment, custodial credit risk if the risk that, in the event of failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The repurchase agreements are exposed to custodial credit risk as they are uninsured and unregistered. The City has no investment policy dealing with custodial credit risk beyond the requirements of State statute.

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

	Fair Value	Percentage of Portfolio
Federal Home Loan Bank	$710,804	20.3%

NOTE 7 - RECEIVABLES

Receivables at December 31, 2007, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; and special assessments. Property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of $493,326, will not be received within one year. Special assessments receivable, in the amount of $263,116, will not be received within one year. At December 31, 2007, the amount of delinquent special assessments was $76,713.

A summary of the changes in notes receivable during 2007 follows:

	Balance December 31, 2006	New Loans	Reductions	Balance December 31, 2007
Special Revenue Fund				
CDBG	$148,943	$0	$0	$148,943
HPG	200,747	0	17,219	183,528
HOME	139,328	38,146	0	177,474
	$489,018	$38,146	$17,219	$509,945

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	$222,937	$378,257	$601,194
Less Allowance for Uncollectibles	12,125	20,644	32,769
Net Accounts Receivable	$210,812	$357,613	$568,425

NOTE 7 - RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	$34,941
$10,000 Personal Property Exemption	1,017
Personal Property Phase-Out	2,307
Estate Tax	6,000
Local Government	211,691
Beer and Liquor Permits	10,095
Municipal Court Fines	128
Bureau of Workers' Compensation	1,275
Ottawa County	324
Port Clinton City Schools	753
Total General Fund	268,531
Nonmajor Funds	
Fire Levy	
Homestead and Rollback	14,133
$10,000 Personal Property Exemption	457
Bureau of Workers' Compensation	65
Total Fire Levy	14,655
Main Thoroughfare	
Buckeye Boulevard Roadway Improvement Grant	323
State Highway	
Gasoline Tax	9,223
Motor Vehicle License Tax	3,516
Total State Highway	12,739
Street Maintenance	
Gasoline Tax	113,748
Motor Vehicle License Tax	44,860
Bureau of Workers' Compensation	108
Total Street Maintenance	158,716
Drug Law Enforcement	
Municipal Court Fines	200

(continued)

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds (continued)	
Law Enforcement Trust	
Municipal Court Fines	$76
Harbor Patrol	
Bureau of Workers' Compensation	22
CDBG	
CDBG Grant	69,079
Total Nonmajor Funds	255,810
Total Governmental Activities	$524,341

NOTE 8 - MUNICIPAL INCOME TAXES

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

NOTE 9 - PROPERTY TAXES

Property taxes include amounts levied against all real property, public utility property, and tangible personal property located in the City. Real property tax revenues received in 2007 represent the collection of 2006 taxes. Real property taxes received in 2007 were levied after October 1, 2006, on the assessed values as of January 1, 2006, 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 2007 represent the collection of 2006 taxes. Public utility real and tangible personal property taxes received in 2007 became a lien on December 31, 2005, were levied after October 1, 2006, 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.

NOTE 9 - PROPERTY TAXES (continued)

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

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, 2007, 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 2007 operations and the collection of delinquent taxes during the available period is not subject to reasonable estimation. On the full accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while the remainder of the receivable has been deferred.

The full tax rate for all City operations for the year ended December 31, 2007, was $6.10 per $1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2007 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	$105,317,870
Commercial/Industrial	32,990,260
Public Utility Real	23,470
Public Utility Personal	6,311,590
Tangible Personal	3,193,785
Total	$147,836,975

NOTE 10 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Governmental Activities:				
Nondepreciable Capital Assets				
Land	$516,482	$0	$0	$516,482
Construction in Progress	0	86,321	0	86,321
Total Nondepreciable Capital Assets	516,482	86,321	0	602,803
Depreciable Capital Assets				
Land Improvements	186,778	45,260	0	232,038
Buildings and Improvements	1,729,498	0	0	1,729,498
Furniture, Fixtures, and Equipment	1,026,478	24,986	0	1,051,464
Vehicles	1,318,352	459,420	0	1,777,772
Streets	7,883,821	24,831	0	7,908,652
Total Depreciable Capital Assets	12,144,927	554,497	0	12,699,424
Less Accumulated Depreciation for				
Land Improvements	(12,977)	(11,602)	0	(24,579)
Buildings and Improvements	(361,246)	(38,603)	0	(399,849)
Furniture, Fixtures, and Equipment	(492,961)	(78,966)	0	(571,927)
Vehicles	(1,222,952)	(74,990)	0	(1,297,942)
Streets	(4,980,101)	(200,209)	0	(5,180,310)
Total Accumulated Depreciation	(7,070,237)	(404,370)	0	(7,474,607)
Total Depreciable Capital Assets, Net	5,074,690	150,127	0	5,224,817
Governmental Activities Capital Assets, Net	$5,591,172	$236,448	$0	$5,827,620

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	$12,552	$0	$0	$12,552
Construction in Progress	339,955	1,772,699	(144,197)	1,968,457
Total Nondepreciable Capital Assets	352,507	1,772,699	(144,197)	1,981,009
Depreciable Capital Assets				
Land Improvements	13,965	0	0	13,965
Buildings and Improvements	11,033,495	0	0	11,033,495
Furniture, Fixtures, and Equipment	549,907	144,197	0	694,104
Vehicles	55,044	24,914	0	79,958
Water, Sewer, and Storm Sewer Lines	2,564,231	0	0	2,564,231
Total Depreciable Capital Assets	14,216,642	169,111	0	14,385,753

(continued)

NOTE 10 - CAPITAL ASSETS (continued)

	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Business-Type Activities:				
Less Accumulated Depreciation for				
Land Improvements	($4,538)	($699)	$0	($5,237)
Buildings and Improvements	(2,244,887)	(190,192)	0	(2,435,079)
Furniture, Fixtures, and Equipment	(179,709)	(43,172)	0	(222,881)
Vehicles	(28,940)	(9,002)	0	(37,942)
Water, Sewer, and Storm Sewer Lines	(508,572)	(51,287)	0	(559,859)
Total Accumulated Depreciation	(2,966,646)	(294,352)	0	(3,260,998)
Total Depreciable Capital Assets, Net	11,249,996	(125,241)	0	11,124,755
Business-Type Activities Capital Assets, Net	$11,602,503	$1,647,458	($144,197)	$13,105,764

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	$73,553
Security of Persons and Property - Fire	44,360
Public Health	9,732
Leisure Time Activities	12,901
Transportation	245,781
General Government	18,043
Total Depreciation Expense - Governmental Activities	$404,370

NOTE 11 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2007, the General Fund had an interfund receivable, in the amount of $35,129, for a loan made to other governmental funds. Of this amount, $31,548 is not scheduled to be collected within one year.

Other governmental funds had an interfund receivable, in the amount of $13,103, for a short-term loan.

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 2007, 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	$13,998,347	$1,000
Special Property	1,626,442	1,000
General Liability		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Medical Expense		
Per Person	10,000	0
Aggregate	50,000	0
Employer's Liability		
Occurrence	2,000,000	0
Aggregate	2,000,000	0
Employee Benefits		
Occurrence	1,000,000	0
Aggregate	3,000,000	0
Public Officials Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Law Enforcement Liability		
Occurrence	2,000,000	5,000
Aggregate	4,000,000	5,000
Auto Liability	2,000,000	250/500

There has been no significant reduction in insurance coverage from 2006, and no insurance settlement has exceeded insurance coverage during the last three years.

Through May 31, 2005, the City provided employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participated in the self-insurance program and made payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. The City utilized a claims servicing pool, the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) to process all claims. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. At December 31, 2007, the City had $9 on deposit with OME-RESA.

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

NOTE 12 - RISK MANAGEMENT (continued)

For 2007, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

NOTE 13 - CONTRACTUAL COMMITMENTS

At December 31, 2007, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
B.E.C. Associates	Third Street Waterline	$48,106
Floyd Browne	Engineer - Remove Heat Oil/Gasoline	9,918
Floyd Browne	Engineer - Phase II WWTP	39,101
Floyd Browne	Engineer - Phase I WWTP	64,746
Floyd Browne	Engineer - WWTP Operations	29,527
Floyd Browne	Engineer - Buckeye Blvd Engineering	45,450
Floyd Browne	Engineer - Brooklyn St. Lift Station	137,739
Floyd Browne	Engineer - 2nd/ Laurel Rebuild Storm Drain	83,266
Floyd Browne	Engineer - Lakeshore Dr. Sewer Improv.	353,950
Floyd Browne	Engineer - Marina Negotiations	9,214
Floyd Browne	Engineer - Buckeye Blvd Improvements	37,700
Floyd Browne	Engineer - Buckeye Blvd Engineering	47,250
Floyd Browne	Engineer - Grid System	18,000
Focht Construction Co.	Odor Control	28,959
Total		$952,926

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: traditional, member-directed and combined. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member-directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by OPERS to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan. While members in the State and local divisions may participate in all three plans, law enforcement (generally sheriffs, deputy sheriffs, and township police) and public safety divisions exist only within the traditional pension 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.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2007, members in state and local classifications contributed 9.5 percent of covered payroll, public safety members contributed 9.75 percent, and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2007 was 13.85 percent of covered payroll. For the period January 1 through June 30, 2007, a portion of the City's contribution equal to 5 percent of covered payroll was allocated to fund the postemployment health care plan; for the period July 1 through December 31, 2007, this amount was increased to 6 percent. Employer contribution rates are actuarially determined. State statute sets a maximum contribution rate for the City of 14 percent.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2007, 2006, and 2005 was $151,990, $166,962, and $178,694, respectively; 91 percent has been contributed for 2007 and 100 percent for 2006 and 2005. Contributions to the member-directed plan for 2007 were $13,537 made by the City and $9,285 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

NOTE 14 - DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations. The City's contribution was 19.5 percent for police officers. Contribution rates are established by State statute. For 2007, a portion of the City's contribution equal to 6.75 percent of covered payroll was allocated to fund the postemployment health care plan. The City's required contribution for pension obligations for police for the year ended December 31, 2007, was $93,071, for the year ended December 31, 2006, was $86,450, and for the year ended December 31, 2005, was $82,771. For 2007, 74 percent has been contributed for police. The full amount has been contributed for 2006 and 2005.

NOTE 15 - POSTEMPLOYMENT BENEFITS

A. Ohio Public Employees Retirement System

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

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 require, 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). State statute requires that public employers fund postemployment health care through contributions to OPERS. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postemployment health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active employees. In 2007, local government employers contributed 13.85 percent of covered payroll. 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 amount of the employer contributions which was allocated to fund postemployment health care was 5 percent of covered payroll from January 1 through June 30, 2007, and 6 percent from July 1 to December 31, 2007.

The OPERS retirement board is also authorized to establish rules for the payment of a portion of the health care benefits 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.

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2007, 2006, and 2005 was $109,030, $86,257, and $77,431, respectively; 90 percent has been contributed for 2007 and 100 percent for 2006 and 2005.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan which was effective January 1, 2007. Member and employer contribution rates increased as of January 1, 2006, January 1, 2007, and January 1, 2008, which 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 reimbursement, 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, or is a spouse or eligible dependent child of such person.

The Ohio Revised Code permits, but does not require, 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 stand-alone financial 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 - OPF's postemployment healthcare plan was established and is administered as an Internal Revenue Code 401(h) account within the defined benefit pension plan under the authority granted by the Ohio Revised Code to the OPF Board of Trustees. The Ohio Revised Code sets the contribution rates for participating employers and for plan members to the OPF. Participating employers are required to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently 19.5 percent and 24 percent of covered payroll for police and firefighters, respectively.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made to the pension plan to the 401(h) account as the employer contribution for retiree healthcare benefits. For the year ended December 31, 2007, 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 also is limited by the provisions of section 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. Active members do not make contributions to the OPEB Plan.

NOTE 15 - POSTEMPLOYMENT BENEFITS (continued)

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police for the year ended December 31, 2007, was $49,273, for the year ended December 31, 2006, was $57,020, and for the year ended December 31, 2005, was $54,594. For 2007, 74 percent has been contributed for police. The full amount has been contributed for 2006 and 2005.

NOTE 16 - COMPENSATED ABSENCES

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

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

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

NOTE 17 - SHORT-TERM OBLIGATIONS

The changes in the City's notes payable during 2007 were as follows:

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Governmental Activities					
General Obligation Bond Anticipation Notes					
2005 Fire Station	3.64%	$259,100	$0	$259,100	$0
2007 Fire Station	4.94	0	159,100	0	159,100
2007 Various Purpose	3.93	0	175,000	0	175,000
Total Governmental Activities		$259,100	$334,100	$259,100	$334,100

NOTE 17 - SHORT-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007
Business-Type Activities					
General Obligation Bond Anticipation Notes					
Sewer					
2007 Sanitary Sewerage System	3.88%	$0	$695,000	$0	$695,000
2007 Various Purpose	3.93	0	750,000	0	750,000
Total Business-Type Activities		$0	$1,445,000	$0	$1,445,000

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

On April 24, 2007, the City issued bond anticipation notes, in the amount of $159,100, to retire notes previously issued to acquire, remodel, equip, and otherwise improve a building to house the operations of the City's volunteer fire department. The notes have an interest rate of 4.94 percent and matured on April 24, 2008. The notes were paid from the General Bond Retirement debt service fund.

On September 19, 2007, the City issued $925,000 in bond anticipation notes; $175,000 for street improvements and $750,000 for sewer system improvements. The notes have an interest rate of 3.93 percent and matured on September 19, 2008. The notes will be paid from the Second and Laurel capital projects fund and the Sewer enterprise fund. As of December 31, 2007, $65,331 of the proceeds had been spent for street improvements and $616,387 had been spent for sewer improvements.

On October 25, 2007, the City issued $695,000 in bond anticipation notes for sewer system improvements. The notes have an interest rate of 3.88 percent and matured on September 19, 2008. The notes will be paid from the Sewer enterprise fund. As of December 31, 2007, $580,237 of the proceeds had been spent.

NOTE 18 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2007, was as follows:

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Due Within One Year
Governmental Activities						
2007 Fire Station Notes	4.94%	$0	$100,000	$0	$100,000	$100,000
General Obligation Bonds						
1994 West Second and Laurel Street (Original Amount $84,260)	6.22	34,648	0	4,055	30,593	4,055
2002 Various Purpose (Original Amount $1,271,000)	2.855	370,455	0	182,746	187,709	187,709
Total General Obligation Bonds		405,103	0	186,801	218,302	191,764

(continued)

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Due Within One Year
Governmental Activities (continued)						
Special Assessment Bonds						
1990 South Madison Street (Original Amount $132,500)	7.4%	$28,000	$0	$7,000	$21,000	$7,000
1994 West Second and Laurel Street (Original Amount $143,470)	6.22	59,352	0	6,945	52,407	6,945
1995 Fulton Street (Original Amount $48,530)	6.5	26,000	0	2,000	24,000	3,000
Total Special Assessment Bonds		113,352	0	15,945	97,407	16,945
Other Long-Term Obligations						
Capital Leases Payable		351,934	84,420	77,666	358,688	76,256
Compensated Absences Payable		123,384	26,641	31,541	118,484	54,906
Total Other Long-Term Obligations		475,318	111,061	109,207	477,172	131,162
Total Governmental Activities		$993,773	$211,061	$311,953	$892,881	$439,871

	Interest Rate	Balance December 31, 2006	Additions	Reductions	Balance December 31, 2007	Due Within One Year
Business-Type Activities						
General Obligation Bonds						
2002 General Obligation Bonds (Original Amount $220,000)	2.855%	$77,545	$0	$38,253	$39,292	$39,292
OPWC Loans						
2002 OPWC Loans Payable (Original Amount $28,000)	0	21,700	0	1,400	20,300	1,400
2004 OPWC Loans Payable (Original Amount $208,350)	0	182,307	0	10,418	171,889	10,418
2004 OPWC Loans Payable (Original Amount $40,934)	0	63,686	0	3,443	60,243	3,442
Total OPWC Loans		267,693	0	15,261	252,432	15,260
OWDA Loans						
2000 OWDA Loans Payable (Original Amount $1,027,009)	5.54	788,377	0	45,432	742,945	47,949
2003 OWDA Loans Payable (Original Amount $5,216,972)	3.89	4,620,927	0	189,426	4,431,501	196,866
Total OWDA Loans		5,409,304	0	234,858	5,174,446	244,815
Other Long-Term Obligations						
Capital Leases Payable		74,114	0	36,179	37,935	37,935
Compensated Absences Payable		78,946	4,144	3,836	79,254	26,247
Total Other Long-Term Obligations		153,060	4,144	40,015	117,189	64,182
Total Business-Type Activities		$5,907,602	$4,144	$328,387	$5,583,359	$363,549

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Bond Anticipation Notes
On April 24, 2007, the City issued bond anticipation notes, in the amount of $100,000, to retire notes previously issued to acquire, remodel, equip, and otherwise improve a building to house the operations of the City's volunteer fire department. The notes have an interest rate of 4.94 percent and matured on April 24, 2008. The notes were paid from the General Bond Retirement debt service fund.

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 debt service funds and the resources of the Water and Sewer enterprise funds.

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

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

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

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

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

The 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 are $252,432 and $5,174,446, respectively. Principal and interest paid for the current year and net revenues were $90,623 and $203,369 from the Water enterprise fund and $381,912 and $466,076 for the Sewer enterprise fund.

The City's legal debt margin was $14,870,480 at December 31, 2007.

NOTE 18 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2007, were as follows:

	General Obligation Bonds		Special Assessment Bonds	
Year	Principal	Interest	Principal	Interest
2008	$191,764	$7,256	$16,945	$6,363
2009	4,423	1,646	17,577	5,219
2010	4,423	1,371	17,577	4,037
2011	4,423	1,097	10,577	2,854
2012	4,423	823	10,577	2,189
2013 to 2015	8,846	822	24,154	2,577
Total	$218,302	$13,015	$97,407	$23,239

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2007, from the business-type activities were as follows:

	General Obligation Bonds		OPWC Loans	OWDA Loans	
Year	Principal	Interest	Principal	Principal	Interest
2008	$39,292	$1,121	$15,260	$244,815	$212,459
2009	0	0	15,260	255,205	202,069
2010	0	0	15,260	266,043	191,229
2011	0	0	15,260	277,354	179,920
2012	0	0	15,260	289,157	168,116
2013 to 2017	0	0	76,300	1,641,640	644,728
2018 to 2022	0	0	75,600	1,689,619	284,870
2023 to 2025	0	0	24,232	510,613	20,805
Total	$39,292	$1,121	$252,432	$5,174,446	$1,904,196

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for equipment and vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. New capital leases are reflected in the accounts "Security of Persons and Property- Police" and "Inception on Capital Lease" in the funds which will be making the lease payments. 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 2007 were $77,666 for governmental funds and $36,179 for enterprise funds.

NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE (continued)

	Governmental Activities	Business-Type Activities
Equipment	$0	$149,083
Vehicles	459,420	0
Less Accumulated Depreciation	(39,072)	(37,271)
Total	$420,348	$111,812

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, 2007.

	Governmental Activities		Business-Type Activities	
Year	Principal	Interest	Principal	Interest
2008	$76,256	$16,802	$37,935	$1,841
2009	80,279	12,779	0	0
2010	54,565	8,537	0	0
2011	57,062	6,040	0	0
2012	59,673	3,429	0	0
2013	30,853	698	0	0
Total	$358,688	$48,285	$37,935	$1,841

NOTE 20 - INTERFUND TRANSFERS

During 2007, the General Fund made transfers to other governmental funds, in the amount of $613,415; $144,124 as debt payments came due and $469,291 to subsidize activities of the various funds. The General Fund also made transfers to the Water and Sewer enterprise funds, in the amount of $3,955 each, to subsidize operations.

Other governmental funds made transfers to other governmental funds, in the amount $302,847; as debt payments came due.

NOTE 21 - INSURANCE POOLS

A. Ohio Government Risk Management Plan

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

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

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

NOTE 22 - CONTINGENT LIABILITIES

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, 2007, to December 31, 2007, 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.

NOTE 23- SUBSEQUENT EVENT

On February 7, 2008, the City issued bond anticipation notes, in the amount of $2,300,000, to upgrade the wastewater treatment plant. The notes have an interest rate of 2.47 percent and mature on September 19, 2008.

NOTE 23- SUBSEQUENT EVENT (continued)

On March 11, 2008, the City issued $100,000 in bond anticipation notes to retire notes previously issued to acquire, remodel, equip, and otherwise improve a building to house the operations of the City's fire department. The notes have an interest rate of 2.49 percent and mature on March 10, 2009.

In 2004, an odor control building was constructed as a component of Phase 1 under the waste water treatment plan consent decree with the United States Environmental Protection Agency. This building began to pull away from the attached structure and was subsequently razed. The City filed a lawsuit against the general contractor for damages in excess of $500,000 and mediation is scheduled to begin November 21, 2008. The outcome of such matters is currently not determinable.

Clifton Gunderson LLP
Certified Public Accountants & Consultants

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

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

We have audited the financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Port Clinton, Ohio (the City), as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon November 6, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting described in Items 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, 2007-6, and 2007-7.

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

Internal Control Over Financial Reporting, Continued

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe that the significant deficiencies described in Item 2007-1, 2007-2, 2007-3, 2005-5 and 2007-7 are also material weaknesses.

Compliance and Other Matters

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

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

We also noted certain immaterial instances of noncompliance that we have reported to management of the City of Port Clinton in a separate letter dated November 6, 2008.

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

Clifton Henderson LLP

Toledo, Ohio
November 6, 2008

Reference 2007-1 – Bank Reconciliations and Supervisory Review

Criteria

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

Condition

Bank reconciliations were not completed timely throughout 2007. While the daily cash tie-out process is being performed, in several instances we noted that the appropriate review was not being performed or it was not properly documented.

Effect

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

Recommendation

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

City's Response

The City has contracted with a firm to assist the Treasurer in performing bank reconciliations in a timely manner. The City will take the recommendations associated with the daily cash tie-out process under consideration.

Reference 2007-2 – Segregation of Duties – Payroll Cycle

Criteria

Segregation of duties is a key component of internal controls.

Condition

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

While the City discovered they overpaid an employee due to an error in their hourly rate, the error was not detected in a timely manner.

Effect

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

Recommendation

We recommend someone independent of the payroll processing review the payroll register on a regular basis for errors or irregularities or consider implementation of compensating controls such as generation and review of payroll report identifying all changes in pay rates and personnel.

City's Response

The City is working to revise its payroll processing review process. The new process would allow an independent party to review a payroll report that identifies changes in pay rates and personnel. This should allow the City to identify any errors in a more timely fashion.

Reference 2007-3 – Segregation of Duties – Disbursements

Criteria

Segregation of duties is a key component of internal controls.

Condition

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

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

Effect

Errors or irregularities may go undetected.

Recommendation

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

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

City's Response

The City is working to implement a lock box process that would limit access to the electronic check writing machine key to those with check writing authority.

Reference 2007-4 – Capital Asset Management

Criteria

Federal regulations require grantees to conduct a physical inventory of equipment and to reconcile the results with the equipment records at least once every two years.

Condition

The City has not completed a physical inventory of capital assets and one is not expected to be performed. Also, the capital assets are maintained on an excel spreadsheet, but no supervisory review is done on the spreadsheet to ensure that capitalized interest is recorded correctly.

In addition, the City has not implemented a capitalization policy regarding infrastructure.

Effect

Failure to comply with the physical inventory requirements could result in the unknown loss of equipment. In addition, considering the lack of controls surrounding capital asset additions and disposals this increases the possibility for misstatement in the capital asset detail and financial statements.

Recommendation

We recommend the City perform a physical inventory of all assets at a minimum of every two years and reconcile the results to the equipment records and general ledger. We also recommend that a formal policy on the addition and deletion of fixed assets and infrastructure be implemented

City Response

Department supervisors review the list of capital assets on an annual basis.

Reference 2007-5 – Segregation of Duties – Cash and Investments

Criteria

Segregation of duties is a key component of internal controls.

Condition

Presently, the Treasurer has the ability to receive mail, make deposits, record deposits, make transfers, has access signature plates and performs reconciliations. This individual also can authorize investment transactions, access on-line investment accounts, sign investment checks, record investment transactions, reconcile accounts and execute electronic funds transfer arrangements.

Effect

This lack of segregation of duties increases the possibility of the misappropriation of City assets.

Recommendation

We recommend City management review the current responsibilities and authority of the treasurer and minimize the risk associated with this lack of segregation of duties.

City Response

The City's small size and limited financial resources are such that the Treasurer's department consists of just one person, which limits the ability to segregate these duties. However, the City will take this recommendation under consideration.

Reference 2007-6 – Disbursements Process

Criteria

Effective disbursement procedures and controls help ensure accurate financial reporting and help prevent a misappropriation of City assets.

Condition

During the test of effectiveness for disbursements the following was noted:

- 5 of the 45 selections chosen had a purchase order that was dated after the invoice date
- 2 of the 45 selections chosen had a receiver signature but it was not dated
- 2 of the 45 selections chosen had invoices without proper approval from the required department head

Effect

This lack of compliance with City policy increases the possibility of the misappropriation of City assets and increases the possibility that expenditures and corresponding liabilities are not recognized in the appropriate accounting period and financial reporting does not accurately reflect the operations of the entity.

Recommendation

We recommend that disbursement procedures are reviewed with all appropriate City personnel to ensure compliance with procedures.

City Response

The City will review disbursement procedures with all appropriate City personnel.

Reference 2007-7 – Segregation of Duties – Water & Sewer Billing

Criteria

Segregation of duties is a key component of internal controls.

Condition

Currently the water office manager/deputy auditor can initiate, authorize, change a sale, has access to payments, can initiate a billing, initiate a credit memo, change all master files, and performs reconciliations for water and sewer billings.

Effect

This lack of segregation of duties increases the possibility of the misappropriation of City assets.

Recommendation

We recommend City management review the current responsibilities and authority of the above positions and minimize the risk associated with this lack of segregation of duties.

City Response

The water office manager is in the process of training additional personnel on several of these duties, such that they can be segregated in the future.

Mary Taylor, CPA
Auditor of State

CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
DECEMBER 16, 2008

88 E. Broad St. / Fourth Floor / Columbus, OH 43215-3506
Telephone: (614) 466-4514 (800) 282-0370 Fax: (614) 466-4490
www.auditor.state.oh.us