



Mary Taylor, CPA
Auditor of State

**CITY OF PORT CLINTON
OTTAWA COUNTY**

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Mary Taylor, CPA

Auditor of State

INDEPENDENT ACCOUNTANTS' REPORT

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

To the Members of City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio (the City), as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 2008, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

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Management's discussion and analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

December 30, 2009

**City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2008
UNAUDITED**

The discussion and analysis of the City of Port Clinton's (the City) financial performance provides an overview of the City's financial activities for the year ended December 31, 2008. 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 \$1,084,811, just over 6 percent. Governmental activities increased 1 percent and business-type activities increased over 12 percent.

USING THIS ANNUAL REPORT

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

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

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

REPORTING THE CITY AS A WHOLE

The statement of net assets and the statement of activities reflect how the City did financially during 2008. These statements include all assets and liabilities using the accrual basis of accounting similar to that which is used by most private-sector companies. This basis of accounting considers all of the current year's revenues and expenses regardless of when cash is received or paid.

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

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

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

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

**City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2008
UNAUDITED**

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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 health 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.

**City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2008
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net assets for 2008 and 2007.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Assets</u>						
Current and Other Assets	\$5,449,573	\$5,755,940	\$2,387,411	\$2,178,137	\$7,836,984	\$7,934,077
Capital Assets, Net	6,040,720	5,827,620	18,007,433	13,105,764	24,048,153	18,933,384
Total Assets	<u>11,490,293</u>	<u>11,583,560</u>	<u>20,394,844</u>	<u>15,283,901</u>	<u>31,885,137</u>	<u>26,867,461</u>
<u>Liabilities</u>						
Current and Other Liabilities	1,382,438	1,390,367	890,459	2,032,631	2,272,897	3,422,998
Long-Term Liabilities	695,454	892,881	10,863,752	5,583,359	11,559,206	6,476,240
Total Liabilities	<u>2,077,892</u>	<u>2,283,248</u>	<u>11,754,211</u>	<u>7,615,990</u>	<u>13,832,103</u>	<u>9,899,238</u>
<u>Net Assets</u>						
Invested in Capital Assets, Net of Related Debt	5,480,278	4,926,199	7,384,196	6,405,035	12,864,474	11,331,234
Restricted	2,142,001	2,255,837			2,142,001	2,255,837
Unrestricted	1,790,122	2,118,276	1,256,437	1,262,876	3,046,559	3,381,152
Total Net Assets	<u>\$9,412,401</u>	<u>\$9,300,312</u>	<u>\$8,640,633</u>	<u>\$7,667,911</u>	<u>\$18,053,034</u>	<u>\$16,968,223</u>

As can be seen in the above table, there was little change from the prior year for governmental activities which reflect an overall increase in net assets of 1 percent.

There were several changes of note for the business-type activities. Net capital assets increased due to continuing construction at the wastewater treatment plant during 2008 as well as some cash financed acquisitions such as a pump station and pickup truck. Current and other liabilities decreased as bond anticipation notes were retired by the issuance of long-term debt. The bonds were issued in excess of the amount needed for note retirement in order pay costs associated with the bond issuance.

**City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2008
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Table 2 reflects the change in net assets for 2008 and 2007.

Table 2
Change in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$460,058	\$387,333	\$3,923,607	\$3,707,997	\$4,383,665	\$4,095,330
Operating Grants, Contributions, and Interest	960,523	577,210			960,523	577,210
Capital Grants and Contributions	229,754		1,068,041	84,756	1,297,795	84,756
Total Program Revenues	<u>1,650,335</u>	<u>964,543</u>	<u>4,991,648</u>	<u>3,792,753</u>	<u>6,641,983</u>	<u>4,757,296</u>
General Revenues						
Property Taxes Levied for General Purposes	557,731	182,509			557,731	182,509
Property Taxes Levied for Fire Operations	223,742	252,602			223,742	252,602
Municipal Income Taxes	2,108,555	2,182,541			2,108,555	2,182,541
Other Local Taxes	173,783	123,142			173,783	123,142
Payment in Lieu of Taxes	1,874	56,250			1,874	56,250
Grants and Entitlements not Restricted to Specific Programs	537,951	743,030			537,951	743,030
Franchise Fees	46,769	66,316			46,769	66,316
Interest	134,712	172,083			134,712	172,083
Other	65,143	44,483	29,528	8,625	94,671	53,108
Total General Revenues	<u>3,850,260</u>	<u>3,822,956</u>	<u>29,528</u>	<u>8,625</u>	<u>3,879,788</u>	<u>3,831,581</u>
Total Revenues	<u>5,500,595</u>	<u>4,787,499</u>	<u>5,021,176</u>	<u>3,801,378</u>	<u>10,521,771</u>	<u>8,588,877</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,693,038	1,649,581			1,693,038	1,649,581
Fire	213,966	179,705			213,966	179,705
Public Health	224,399	217,082			224,399	217,082
Leisure Time Activities	148,178	121,145			148,178	121,145
Community Environment	446,505	148,151			446,505	148,151
Transportation	1,053,731	729,891			1,053,731	729,891
General Government	1,571,219	1,452,038			1,571,219	1,452,038
Interest and Fiscal Charges	31,887	64,749			31,887	64,749

(Continued)

**City of Port Clinton
Management's Discussion and Analysis
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Water			1,370,297	1,354,259	1,370,297	1,354,259
Sewer			2,683,740	1,987,301	2,683,740	1,987,301
Total Expenses	<u>5,382,923</u>	<u>4,562,342</u>	<u>4,054,037</u>	<u>3,341,560</u>	<u>9,436,960</u>	<u>7,903,902</u>
Increase in Net Assets Before Transfers	117,672	225,157	967,139	459,818	1,084,811	684,975
Transfers	(5,583)	(7,910)	5,583	7,910		
Increase in Net Assets	<u>112,089</u>	<u>217,247</u>	<u>972,722</u>	<u>467,728</u>	<u>1,084,811</u>	<u>684,975</u>
Net Assets Beginning of Year	<u>9,300,312</u>	<u>9,083,065</u>	<u>7,667,911</u>	<u>7,200,183</u>	<u>16,968,223</u>	<u>16,283,248</u>
Net Assets End of Year	<u>\$9,412,401</u>	<u>\$9,300,312</u>	<u>\$8,640,633</u>	<u>\$7,667,911</u>	<u>\$18,053,034</u>	<u>\$16,968,223</u>

For governmental activities, there was an overall increase in program revenues of 71 percent. Charges for services increased due to an increase in license fees, operating grants and contributions increased, the result of a Clean Ohio Revitalization Grant and CDGB monies, and capital grants and contributions increased from a grant received from the Ohio Public Works Commission. General revenues remained very consistent with the prior year.

Most programs realized an increase in expenses in 2008, with the most significant increases in the community environment and transportation programs. The increase in the community environment program was related to CDBG activities and payroll allocation adjustments contributed to the increase in the transportation program. Safety related activities (police and fire), as expected, continue to account for the largest portion of the City's expenses. The majority of these costs are police department related since the City has a volunteer fire department. The City's second largest expense is related to general government costs, those costs primarily associated with running the City (costs consist of the operation of the offices of the mayor, auditor, treasurer, law director, safety service director, as well as the income tax department, and building/grounds maintenance).

For business-type activities, program revenues 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 for the sewer department increased significantly due to expenses related to the expansion of the wastewater treatment plant.

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

**City of Port Clinton
Management's Discussion and Analysis
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Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Security of Persons and Property				
Police	\$1,693,038	\$1,649,581	\$1,614,091	\$1,572,373
Fire	213,966	179,705	90,395	61,286
Public Health	224,399	217,082	182,303	169,428
Leisure Time Activities	148,178	121,145	102,977	76,685
Community Environment	446,505	148,151	91,337	(61,231)
Transportation	1,053,731	729,891	324,854	387,498
General Government	1,571,219	1,452,038	1,294,744	1,327,011
Interest and Fiscal Charges	31,887	64,749	31,887	64,749
Total Expenses	\$5,382,923	\$4,562,342	\$3,732,588	\$3,597,799

With general revenues providing for 69 percent of the City's program costs in 2008, the City's dependence on the largest source of general revenues, municipal income taxes, is critical. As noted above, the City's police operations are substantially funded through general revenues. The same can be said for general government operations. The fire department and leisure time activities program benefit from charges for services which reduce the amount of general revenues required to support operations. These charges are made up of sports league fees, parking fees, and concessions for leisure time activities. The community environment program receives substantial grant resources from the community development block grant program. Lastly, the transportation program receives charges for services in the form of permissive motor vehicle registration fees. In addition, this program receives operating grants in the form of State levied motor vehicle registration fees and gasoline taxes.

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

The City's major governmental fund is the General Fund. The General Fund experienced a \$491,418 decrease in fund balance. There were slight decreases in revenues in 2008 and there was an increase in transfers to subsidize activities in other funds.

BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. While not significant, both funds reported an operating revenue as well as an increase in net assets, although this increase was primarily the result of capital contributions.

BUDGETARY HIGHLIGHTS

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

**City of Port Clinton
Management's Discussion and Analysis
For the Year Ended December 31, 2008
UNAUDITED**

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, the change from the original budget to the final budget was not significant; however, actual expenses were 20 percent less than budgeted. The City was able to limit spending, primarily in the general government program.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's investment in capital assets for governmental and business-type activities as of December 31, 2008, was \$5,480,278 and \$7,384,196, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted of a dump truck and a mower. Deletions consisted of a police cruiser. For business-type activities, the primary increase was related to continued improvements at the wastewater treatment plant, along with a pump station, pickup truck, and water, sewer, and storm sewer line improvements. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

Debt - At December 31, 2008, the City had \$100,000 in outstanding bond anticipation notes as well as \$206,538 in general obligation bonds and \$80,462 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$3,810,000 in general obligation bonds, \$237,172 in OPWC loans, and \$6,708,938 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 18, 19, and 20 to the basic financial statements.

CURRENT ISSUES

Current issues and events in the City include the following:

- The City will resurface Lake Shore Drive, much of Perry Street, and large portions of Buckeye Boulevard in 2009.
- The City is seeking federal stimulus funds for several projects dealing with the sewer plant, street resurfacing, and a public transient marina.
- The City is completing upgrades that will increase the capacity of its wastewater treatment plant.
- The Island House, a local restaurant/hotel has reopened. Wilson's Gym has closed.

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, 2008

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,354,442	\$1,690,587	\$4,045,029
Cash and Cash Equivalents with Fiscal Agent	17,512		17,512
Accounts Receivable	61,979	632,977	694,956
Accrued Interest Receivable	8,389		8,389
Due from Other Governments	653,345	22,178	675,523
Municipal Income Taxes Receivable	612,370		612,370
Other Local Taxes Receivable	4,022		4,022
Internal Balances	(16)	16	
Prepaid Items	39,242	7,803	47,045
Materials and Supplies Inventory	26,699	33,850	60,549
Property Taxes Receivable	814,136		814,136
Notes Receivable	533,988		533,988
Special Assessments Receivable	272,840		272,840
Payment in Lieu of Taxes Receivable	50,625		50,625
Nondepreciable Capital Assets	526,937	5,263,374	5,790,311
Depreciable Capital Assets, Net	5,513,783	12,744,059	18,257,842
Total Assets	11,490,293	20,394,844	31,885,137
<u>Liabilities</u>			
Accrued Wages Payable	58,628	19,082	77,710
Accounts Payable	32,549	77,527	110,076
Contracts Payable	231,693	364,166	595,859
Retainage Payable	6,998	267,705	274,703
Due to Other Governments	177,198	64,072	241,270
Deferred Revenue	771,153		771,153
Accrued Interest Payable	4,219	41,101	45,320
Notes Payable	100,000		100,000
Deposits Held and Due to Others		56,806	56,806
Long-Term Liabilities			
Due Within One Year	153,578	414,176	567,754
Due in More Than One Year	541,876	10,449,576	10,991,452
Total Liabilities	2,077,892	11,754,211	13,832,103
<u>Net Assets</u>			
Invested in Capital Assets, Net of Related Debt	5,480,278	7,384,196	12,864,474
Restricted for			
Debt Service	140,829		140,829
Capital Projects	224,667		224,667
Transportation	455,661		455,661
Community Environment	679,493		679,493
Other Purposes	641,351		641,351
Unrestricted	1,790,122	1,256,437	3,046,559
Total Net Assets	\$9,412,401	\$8,640,633	\$18,053,034

See Accompanying Notes to the Basic Financial Statements

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City of Port Clinton
Statement of Activities
For the Year Ended December 31, 2008

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants and Contributions
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,693,038	\$55,005	\$23,942	
Fire	213,966	123,271	300	
Public Health	224,399	42,096		
Leisure Time Activities	148,178	40,797	4,404	
Community Environment	446,505		355,168	
Transportation	1,053,731	74,407	424,716	\$229,754
General Government	1,571,219	124,482	151,993	
Interest and Fiscal Charges	31,887			
Total Governmental Activities	5,382,923	460,058	960,523	229,754
<u>Business-Type Activities</u>				
Water	1,370,297	1,490,112		160,532
Sewer	2,683,740	2,433,495		907,509
Total Business-Type Activities	4,054,037	3,923,607		1,068,041
Total	\$9,436,960	\$4,383,665	\$960,523	\$1,297,795

General Revenues

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

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year - Restated (Note 3)

Net Assets End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue
and Change in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$1,614,091)		(\$1,614,091)
(90,395)		(90,395)
(182,303)		(182,303)
(102,977)		(102,977)
(91,337)		(91,337)
(324,854)		(324,854)
(1,294,744)		(1,294,744)
(31,887)		(31,887)
(3,732,588)		(3,732,588)
	280,347	280,347
	657,264	657,264
	937,611	937,611
(3,732,588)	937,611	(2,794,977)
557,731		557,731
223,742		223,742
2,108,555		2,108,555
173,783		173,783
1,874		1,874
537,951		537,951
46,769		46,769
134,712		134,712
65,143	29,528	94,671
3,850,260	29,528	3,879,788
(5,583)	5,583	
3,844,677	35,111	3,879,788
112,089	972,722	1,084,811
9,300,312	7,667,911	16,968,223
\$9,412,401	\$8,640,633	\$18,053,034

**City of Port Clinton
Balance Sheet
Governmental Funds
December 31, 2008**

	General	Other Governmental	Total Governmental Funds
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$1,027,930	\$1,308,269	\$2,336,199
Cash and Cash Equivalents			
with Fiscal Agent		17,449	17,449
Accounts Receivable	61,379	600	61,979
Accrued Interest Receivable	8,389		8,389
Due from Other Governments	313,404	339,941	653,345
Municipal Income Taxes Receivable	612,370		612,370
Other Local Taxes Receivable	4,022		4,022
Interfund Receivable	31,548	1,953	33,501
Prepaid Items	28,510	10,732	39,242
Materials and Supplies Inventory	9,020	17,679	26,699
Restricted Assets			
Equity in Pooled Cash and Cash Equivalents	18,243		18,243
Property Taxes Receivable	573,529	240,607	814,136
Notes Receivable		533,988	533,988
Special Assessments Receivable		272,840	272,840
Payment in Lieu of Taxes Receivable		50,625	50,625
Total Assets	\$2,688,344	\$2,794,683	\$5,483,027
<u>Liabilities and Fund Balance</u>			
<u>Liabilities</u>			
Accrued Wages Payable	\$46,367	\$12,261	\$58,628
Accounts Payable	18,999	13,550	32,549
Contracts Payable	16,933	214,760	231,693
Retainage Payable		6,998	6,998
Due to Other Governments	142,454	34,744	177,198
Interfund Payable	1,953	31,548	33,501
Deferred Revenue	1,205,056	719,541	1,924,597
Accrued Interest Payable	1,712		1,712
Notes Payable	100,000		100,000
Total Liabilities	1,533,474	1,033,402	2,566,876
<u>Fund Balance</u>			
Reserved for Interfund Receivable	27,761		27,761
Reserved for Unclaimed Monies	18,243		18,243
Reserved for Notes Receivable		517,448	517,448
Unreserved, Reported in			
General Fund	1,108,866		1,108,866
Special Revenue Funds		1,093,953	1,093,953
Debt Service Funds		64,197	64,197
Capital Projects Funds		85,683	85,683
Total Fund Balance	1,154,870	1,761,281	2,916,151
Total Liabilities and Fund Balance	\$2,688,344	\$2,794,683	\$5,483,027

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Reconciliation of Total Governmental Fund Balance
to Net Assets of Governmental Activities
December 31, 2008

Total Governmental Fund Balance		\$2,916,151
<p>Amounts reported for governmental activities on the statement of net assets are different because of the following:</p>		
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>		
		6,040,720
<p>Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds:</p>		
Accounts Receivable	60,569	
Accrued Interest Receivable	7,979	
Due from Other Governments	391,962	
Municipal Income Taxes Receivable	325,519	
Other Local Taxes Receivable	967	
Property Taxes Receivable	42,983	
Special Assessments Receivable	272,840	
Payment in Lieu of Taxes Receivable	50,625	
		1,153,444
<p>An internal balance is recorded in governmental activities to reflect overpayments to the internal service fund by the business-type activities.</p>		
		(16)
<p>Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:</p>		
Accrued Interest Payable	(2,507)	
General Obligations Bonds Payable	(206,538)	
Special Assessment Bonds Payable	(80,462)	
Capital Leases Payable	(282,432)	
Compensated Absences Payable	(126,022)	
		(697,961)
<p>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.</p>		
		63
Net Assets of Governmental Activities		\$9,412,401

See Accompanying Notes to the Basic Financial Statements

**City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Governmental Funds
For the Year Ended December 31, 2008**

	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Property Taxes	\$554,376	\$222,234	\$776,610
Municipal Income Taxes	2,098,998		2,098,998
Other Local Taxes	173,422	74,407	247,829
Payment in Lieu of Taxes		7,499	7,499
Special Assessments		17,840	17,840
Charges for Services	211,560	156,694	368,254
Fees, Licenses, and Permits	4,152		4,152
Fines and Forfeitures	9,227	2,753	11,980
Intergovernmental	669,408	1,047,859	1,717,267
Interest	117,024	62,855	179,879
Other	49,760	20,357	70,117
Total Revenues	<u>3,887,927</u>	<u>1,612,498</u>	<u>5,500,425</u>
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Police	1,520,916	110,948	1,631,864
Fire		169,606	169,606
Public Health	220,319		220,319
Leisure Time Activities	139,449		139,449
Community Environment	3,824	442,331	446,155
Transportation		1,076,218	1,076,218
General Government	1,445,788		1,445,788
Capital Outlay		431,235	431,235
Debt Service:			
Principal Retirement	30,417	254,548	284,965
Current Refunding		100,000	100,000
Interest and Fiscal Charges	7,230	47,281	54,511
Total Expenditures	<u>3,367,943</u>	<u>2,632,167</u>	<u>6,000,110</u>
Excess of Revenues Over (Under) Expenditures	<u>519,984</u>	<u>(1,019,669)</u>	<u>(499,685)</u>
<u>Other Financing Sources (Uses)</u>			
General Obligation Bonds Issued	5,000	175,000	180,000
Transfers In		1,118,221	1,118,221
Transfers Out	<u>(1,016,402)</u>	<u>(103,407)</u>	<u>(1,119,809)</u>
Total Other Financing Sources (Uses)	<u>(1,011,402)</u>	<u>1,189,814</u>	<u>178,412</u>
Change in Fund Balance	(491,418)	170,145	(321,273)
Fund Balance Beginning of Year	<u>1,646,288</u>	<u>1,591,136</u>	<u>3,237,424</u>
Fund Balance End of Year	<u>\$1,154,870</u>	<u>\$1,761,281</u>	<u>\$2,916,151</u>

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Reconciliation of Statement of Revenues, Expenditures,
and Change in Fund Balance
of Governmental Funds to Statement of Activities
For the Year Ended December 31, 2008

Change in Fund Balance - Total Governmental Funds (\$321,273)

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	577,014	
Capital Outlay- Depreciable Capital Assets	37,324	
Depreciation	<u>(401,238)</u>	213,100

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

Property Taxes	4,863	
Municipal Income Taxes	9,557	
Other Local Taxes	361	
Special Assessments	(17,840)	
Payment in Lieu of Taxes	(5,625)	
Charges for Services	1,265	
Fees, Licenses, and Permits	46,769	
Intergovernmental	(35,175)	
Interest	<u>(4,005)</u>	170

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	100,000	
General Obligation Bonds Payable	191,764	
Special Assessment Bonds Payable	16,945	
Capital Leases Payable	<u>76,256</u>	384,965

Bond proceeds are other financing sources in the governmental funds but the issuance increases long-term liabilities on the statement of net assets. (180,000)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net assets. 22,624

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. (7,538)

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. 41

Change in Net Assets of Governmental Activities \$112,089

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Revenues, Expenditures,
and Change in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual
General Fund
For the Year Ended December 31, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Over (Under)
	Original	Final		
<u>Revenues</u>				
Property Taxes	\$561,370	\$608,900	\$554,376	(\$54,524)
Municipal Income Taxes	2,199,500	2,199,500	2,229,265	29,765
Other Local Taxes	166,912	150,000	172,731	22,731
Charges for Services	267,550	266,200	214,243	(51,957)
Fees, Licenses, and Permits	6,899	46,300	48,694	2,394
Fines and Forfeitures	4,451	11,000	9,053	(1,947)
Intergovernmental	1,039,953	946,283	637,870	(308,413)
Interest	133,758	120,205	154,979	34,774
Other	142,262	68,300	51,029	(17,271)
Total Revenues	4,522,655	4,416,688	4,072,240	(344,448)
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,681,280	1,651,280	1,510,486	140,794
Public Health	225,177	225,177	216,995	8,182
Leisure Time Activities	152,832	152,832	136,571	16,261
Community Environment	9,234	9,234	3,824	5,410
General Government	1,833,013	2,069,696	1,409,176	660,520
Debt Service:				
Principal Retirement		4,055	4,055	
Interest and Fiscal Charges		1,945	1,897	48
Total Expenditures	3,901,536	4,114,219	3,283,004	831,215
Excess of Revenues Over Expenditures	621,119	302,469	789,236	486,767
<u>Other Financing Sources (Uses)</u>				
Bond Anticipation Notes Issued			100,000	100,000
General Obligation Bonds Issued	80,118	50,000	5,000	(45,000)
Advances In			3,581	3,581
Transfers Out	(1,003,600)	(1,018,600)	(1,014,814)	3,786
Total Other Financing Sources (Uses)	(923,482)	(968,600)	(906,233)	62,367
Change in Fund Balance	(302,363)	(666,131)	(116,997)	549,134
Fund Balance Beginning of Year	1,024,082	1,024,082	1,024,082	
Prior Year Encumbrances Appropriated	119,712	119,712	119,712	
Fund Balance End of Year	\$841,431	\$477,663	\$1,026,797	\$549,134

See Accompanying Notes to the Basic Financial Statements

**City of Port Clinton
Statement of Fund Net Assets
Proprietary Funds
December 31, 2008**

	<u>Business-Type Activities</u>		Total Enterprise Funds	Governmental
	Water	Sewer		Activity Internal Service Fund
<u>Assets</u>				
<u>Current Assets</u>				
Equity in Pooled Cash and Cash Equivalents	\$320,070	\$1,313,711	\$1,633,781	
Cash and Cash Equivalents with Fiscal Agent				\$63
Accounts Receivable	224,373	408,604	632,977	
Due from Other Governments	155	22,023	22,178	
Prepaid Items	2,231	5,572	7,803	
Materials and Supplies Inventory	17,744	16,106	33,850	
Total Current Assets	564,573	1,766,016	2,330,589	63
<u>Non-Current Assets</u>				
Restricted Assets				
Equity in Pooled Cash and Cash Equivalents	56,806		56,806	
Nondepreciable Capital Assets	12,552	5,250,822	5,263,374	
Depreciable Capital Assets, Net	2,305,701	10,438,358	12,744,059	
Total Non-Current Assets	2,375,059	15,689,180	18,064,239	
Total Assets	2,939,632	17,455,196	20,394,828	63
<u>Liabilities</u>				
<u>Current Liabilities</u>				
Accrued Wages Payable	5,500	13,582	19,082	
Accounts Payable	4,429	73,098	77,527	
Contracts Payable	155	364,011	364,166	
Retainage Payable		267,705	267,705	
Due to Other Governments	21,869	42,203	64,072	
Accrued Interest Payable		41,101	41,101	
General Obligation Bonds Payable		100,000	100,000	
OPWC Loans Payable	1,514	13,746	15,260	
OWDA Loans Payable	50,606	204,599	255,205	
Compensated Absences Payable	8,876	34,835	43,711	
Total Current Liabilities	92,949	1,154,880	1,247,829	
<u>Non-Current Liabilities</u>				
Deposits Held and Due to Others	56,806		56,806	
General Obligation Bonds Payable		3,710,000	3,710,000	
OPWC Loans Payable	22,818	199,094	221,912	
OWDA Loans Payable	644,390	5,809,343	6,453,733	
Compensated Absences Payable	17,084	46,847	63,931	
Total Non-Current Liabilities	741,098	9,765,284	10,506,382	
Total Liabilities	834,047	10,920,164	11,754,211	
<u>Net Assets</u>				
Invested in Capital Assets, Net of Related Debt	1,598,925	5,785,271	7,384,196	
Unrestricted	506,660	749,761	1,256,421	63
Total Net Assets	\$2,105,585	\$6,535,032	8,640,617	\$63

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

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Net assets of business-type activities

\$8,640,633

See Accompanying Notes to the Basic Financial Statements

**City of Port Clinton
Statement of Revenues, Expenses,
and Change in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2008**

	<u>Business-Type Activities</u>		Total Enterprise Funds	<u>Governmental Activity</u>
	<u>Water</u>	<u>Sewer</u>		<u>Internal Service Fund</u>
<u>Operating Revenues</u>				
Charges for Services	\$1,490,112	\$2,433,495	\$3,923,607	
Other	7,941	21,587	29,528	\$61
Total Operating Revenues	<u>1,498,053</u>	<u>2,455,082</u>	<u>3,953,135</u>	<u>61</u>
<u>Operating Expenses</u>				
Personal Services	350,362	779,949	1,130,311	
Contractual Services	10,027	281,481	291,508	
Materials and Supplies	841,469	1,002,601	1,844,070	
Other	60,000	60,000	120,000	9
Depreciation	66,294	250,989	317,283	
Total Operating Expenses	<u>1,328,152</u>	<u>2,375,020</u>	<u>3,703,172</u>	<u>9</u>
Operating Income	<u>169,901</u>	<u>80,062</u>	<u>249,963</u>	<u>52</u>
<u>Non-Operating Revenues (Expenses)</u>				
Interest Revenue				2
Interest Expense	(42,149)	(308,729)	(350,878)	
Total Non-Operating Revenues (Expenses)	<u>(42,149)</u>	<u>(308,729)</u>	<u>(350,878)</u>	<u>2</u>
Income (Loss) before Capital Contributions and Transfers	127,752	(228,667)	(100,915)	54
Capital Contributions	164,527	907,509	1,072,036	
Transfers In	794	794	1,588	
Change in Net Assets	293,073	679,636	972,709	54
Net Assets Beginning of Year	<u>1,812,512</u>	<u>5,855,396</u>		<u>9</u>
Net Assets End of Year	<u>\$2,105,585</u>	<u>\$6,535,032</u>		<u>\$63</u>

The change in net assets reported for business-type activities on the statement of activities is different because it includes a proportionate share of the net income of the internal service fund.

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Change in net assets of business-type activities

\$972,722

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2008

	Business-Type Activities			Governmental
	Water	Sewer	Total Enterprise Funds	Activity Internal Service Fund
Increases (Decreases) in Cash and Cash Equivalents				
<u>Cash Flows from Operating Activities</u>				
Cash Received from Customers	\$1,476,551	\$2,382,504	\$3,859,055	
Cash Received from Other Revenues	8,157	22,062	30,219	\$61
Cash Payments for Personal Services	(333,283)	(733,420)	(1,066,703)	
Cash Payments for Contractual Services	(10,451)	(292,801)	(303,252)	
Cash Payments to Vendors	(830,520)	(922,713)	(1,753,233)	
Cash Payments for Other Expenses	(60,000)	(60,000)	(120,000)	(9)
Net Cash Provided by Operating Activities	<u>250,454</u>	<u>395,632</u>	<u>646,086</u>	<u>52</u>
<u>Cash Flows from Noncapital Financing Activities</u>				
Grants	167,654	885,486	1,053,140	
Transfers In	794	794	1,588	
Net Cash Provided by Noncapital Financing Activities	<u>168,448</u>	<u>886,280</u>	<u>1,054,728</u>	
<u>Cash Flows from Capital and Related Financing Activities</u>				
Principal Paid on Bond Anticipation Notes		(3,745,000)	(3,745,000)	
Principal Paid on General Obligation Bonds	(2,679)	(36,613)	(39,292)	
Principal Paid on OPWC Loans	(1,515)	(13,745)	(15,260)	
Principal Paid on OWDA Loans	(47,949)	(196,866)	(244,815)	
Lease Principal	(18,968)	(18,967)	(37,935)	
Interest Paid on Bond Anticipation Notes		(88,777)	(88,777)	
Interest Paid on General Obligation Bonds	(76)	(1,040)	(1,116)	
Interest Paid on OWDA Loans	(41,159)	(176,976)	(218,135)	
Lease Interest	(920)	(921)	(1,841)	
Bond Anticipation Notes Issued		2,300,000	2,300,000	
General Obligation Bonds Issued		3,810,000	3,810,000	
OWDA Loans Issued		1,779,307	1,779,307	
Acquisition of Capital Assets	(355,503)	(4,687,887)	(5,043,390)	
Net Cash Used for Capital and Related Financing Activities	<u>(468,769)</u>	<u>(1,077,485)</u>	<u>(1,546,254)</u>	
<u>Cash Flows from Investing Activities</u>				
Interest				<u>2</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(49,867)	204,427	154,560	54
Cash and Cash Equivalents Beginning of Year	<u>426,743</u>	<u>1,109,284</u>	<u>1,536,027</u>	<u>9</u>
Cash and Cash Equivalents End of Year	<u>\$376,876</u>	<u>\$1,313,711</u>	<u>\$1,690,587</u>	<u>\$63</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>				
Operating Income	169,901	80,062	249,963	52
<u>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</u>				
Depreciation	66,294	250,989	317,283	
Provision for Uncollectible Accounts	(5,630)	(9,585)	(15,215)	
Changes in Assets and Liabilities:				
Increase in Accounts Receivable	(7,931)	(41,406)	(49,337)	
Decrease in Due from Other Governments	216	475	691	
(Increase) Decrease in Prepaid Items	4,436	(2,826)	1,610	
(Increase) Decrease in Materials and Supplies Inventory	(27)	22,478	22,451	
Increase in Accrued Wages Payable	170	3,206	3,376	
Increase in Accounts Payable	3,293	49,794	53,087	
Increase (Decrease) in Contracts Payable	(234)	10,461	10,227	
Decrease in Retainage Payable		(2,694)	(2,694)	
Increase in Due to Other Governments	8,363	12,203	20,566	
Increase in Compensated Absences Payable	5,913	22,475	28,388	
Increase in Deposits Held and Due to Others	5,690		5,690	
Net Cash Provided by Operating Activities	<u>\$250,454</u>	<u>\$395,632</u>	<u>\$646,086</u>	<u>\$52</u>
<u>Non-Cash Capital Transaction</u>				

At December 31, 2008, the Water and Sewer enterprise funds had receivables for grants related to capital assets, in the amount of \$155 and \$22,023 respectively.

During 2008, the General Fund donated capital assets, in the amount of \$3,995, to the water enterprise fund.

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2008

<u>Assets</u>	
Equity in Pooled Cash and Cash Equivalents	<u><u>\$14,957</u></u>
<u>Liabilities</u>	
Undistributed Assets	<u><u>\$14,957</u></u>

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008

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 2008.

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 22 to the basic financial statements.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Port Clinton have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its 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 that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Fund Accounting

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

Governmental Funds

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

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

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 2008. 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

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, 2008, but were levied to finance 2009 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

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

Expenses/Expenditures

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

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

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 certificate of estimated resources and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources establishes a limit on the amount City Council may appropriate. The appropriations ordinance is City Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by City Council. The legal level of control has been established by City Council at the fund, department, 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 health insurance administrator and Key Bank are recorded as "Cash and Cash Equivalents with Fiscal Agent".

During 2008, the City's investments included nonnegotiable certificates of deposit, repurchase agreements, federal agency securities, mutual funds, 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, 2008.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2008 was \$117,024, which includes \$85,177 assigned from other City funds.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

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, 2008, 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	20 years
Buildings and Improvements	15-45 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 generally consist of various police department grants and programs. The City's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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, and notes receivable.

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 and other funds.

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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

S. Estimates

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

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

A. Change in Accounting Principles

For 2008, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations", Statement No. 51, "Accounting and Financial Reporting for Intangible Assets", and Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments".

GASB Statement No. 49 establishes accounting and financial reporting requirements for pollution remediation obligations by requiring more timely and complete reporting of the obligations and by requiring all governments to account for pollution remediation obligations in the same manner. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 51 establishes accounting and financial reporting requirements for intangible assets to reduce inconsistencies thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this statement did not result in any changes to the financial statements.

GASB Statement No. 52 establishes consistent standards for reporting land and other real estate held as investments. It requires endowments to report land and other real estate investments at fair value, to report the changes in fair value as investment income, and to disclose the methods and significant assumptions used to determine fair value. The implementation of this statement did not result in any changes to the financial statements.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

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

(continued)

B. Restatement of Net Assets

In the prior year, the City did not record the full amount of the receivable for payment in lieu of taxes. The restatement had the following effect on net assets.

	Total Governmental Activities
Net Assets at December 31, 2007	\$9,244,062
Payment in Lieu of Taxes Receivable	56,250
Adjusted Net Assets at December 31, 2007	\$9,300,312

NOTE 4 - ACCOUNTABILITY AND COMPLIANCE

A. Accountability

At December 31, 2008, the Second and Laurel capital projects fund had a deficit fund balance, in the amount of \$54,273, 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.

B. Compliance

The following accounts had expenses in excess of appropriations for the year ended December 31, 2008.

Fund/Department/Object	Appropriations	Expenses	Excess
Business Type Activities			
Water Fund			
Capital Outlay	\$382,256	\$396,093	\$13,837
Sewer Fund			
Materials and Supplies	513,212	781,327	268,115

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

At December 31, 2008, the Sewer enterprise fund had final appropriations in excess of estimated resources plus available balances, in the amount of \$600,778. The Auditor will review appropriations to ensure they are within available resources.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

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

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

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

Change in Fund Balance	
GAAP Basis	(\$491,418)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2007, Received in Cash 2008	501,517
Accrued 2008, Not Yet Received in Cash	(366,084)
Expenditure Accruals:	
Accrued 2007, Paid in Cash 2008	(143,951)
Accrued 2008, Not Yet Paid in Cash	226,465
Cash Adjustments:	
Unrecorded Activity 2007	67,578
Unrecorded Activity 2008	(19,376)
	(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING (continued)

Change in Fund Balance
(continued)

Prepaid Items	\$3,513
Materials and Supplies Inventory	1,178
Advances In	3,581
Notes Issued	100,000
Budget Basis	<u>(\$116,997)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

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

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

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

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

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

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.

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, \$144,856 of the City's bank balance of \$722,465 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 6 - DEPOSITS AND INVESTMENTS (continued)

Investments

As of December 31, 2008, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Repurchase Agreements	\$2,172,723	1/2/09
Federal Home Loan Bank Notes	229,840	6/12/09
Federal Home Loan Bank Notes	257,523	9/18/09
Federal Home Loan Bank Bonds	126,968	4/30/10
Federal Farm Credit Bank Notes	110,004	12/30/10
Mutual Funds	16,971	63 days
STAR Ohio	455,545	54.7 days
Total Investments	<u>\$3,369,574</u>	

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

The 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 repurchase agreements be limited to investments listed in items 1 and 2 on pages 35 and 36, that mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service, and that STAR Ohio maintain the highest rating provided by at least one nationally recognized standard rating service.

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

	<u>Fair Value</u>	<u>Percentage of Portfolio</u>
Repurchase Agreements	\$2,172,723	64.5%
Federal Home Loan Bank	614,331	18.2
Federal Farm Credit Bank	110,004	3.3

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 7 - RECEIVABLES

Receivables at December 31, 2008, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; special assessments; and payment in lieu of taxes. All receivables, except property taxes and payment in lieu of taxes, are expected to be collected within one year. Notes receivable, in the amount of \$517,448, will not be received within one year. Special assessments receivable, in the amount of \$244,122, will not be received within one year. Payment in lieu of taxes, in the amount of \$45,000, will not be received within one year. At December 31, 2008, the amount of delinquent special assessments was \$86,241.

A summary of the changes in notes receivable during 2008 follows:

	<u>Balance December 31, 2007</u>	<u>New Loans</u>	<u>Repayments</u>	<u>Balance December 31, 2008</u>
Special Revenue Fund				
CDBG	\$148,943			\$148,943
HPG	183,528		59,237	124,291
HOME	177,474	\$95,938	\$12,658	260,754
	<u>\$509,945</u>	<u>\$95,938</u>	<u>\$71,895</u>	<u>\$533,988</u>

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

	<u>Water</u>	<u>Sewer</u>	<u>Total Enterprise Funds</u>
Accounts Receivable	\$230,868	\$419,663	\$650,531
Less Allowance for Uncollectibles	<u>6,495</u>	<u>11,059</u>	<u>17,554</u>
Net Accounts Receivable	<u>\$224,373</u>	<u>\$408,604</u>	<u>\$632,977</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 7 - RECEIVABLES (continued)

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Funds	
General Fund	
Homestead and Rollback	\$34,611
\$10,000 Personal Property Exemption	508
Personal Property Phase-Out	3,351
Estate Tax	54,083
Local Government	191,869
Beer and Liquor Permits	9,467
Municipal Court Fines	302
Clean Ohio Revitalization Grant	16,933
Continuing Professional Training Attestation	2,280
Total General Fund	313,404
Nonmajor Funds	
Fire Levy	
Homestead and Rollback	14,002
\$10,000 Personal Property Exemption	228
Total Fire Levy	14,230
Main Thoroughfare	
Motor Vehicle License Tax	5,324
Buckeye Boulevard Roadway Improvement Grant	135,687
Total Main Thoroughfare	141,011
State Highway	
Gasoline Tax	9,475
Motor Vehicle License Tax	3,860
Total State Highway	13,335
	(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 7 - RECEIVABLES (continued)

	Amount
Governmental Activities (continued)	
Nonmajor Funds (continued)	
Street Maintenance	
Gasoline Tax	\$122,075
Motor Vehicle License Tax	42,390
Total Street Maintenance	164,465
CDBG	
CDBG Grant	6,900
Total Nonmajor Funds	339,941
Total Governmental Activities	\$653,345
Business-Type Activities	
Major Funds	
Water	
Buckeye Boulevard Waterline Grant	\$155
Sewer	
Stag Grant	22,023
Total Business- Type Activities	\$22,178

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 2008 represent the collection of 2007 taxes. Real property taxes received in 2008 were levied after October 1, 2007, on the assessed values as of January 1, 2007, 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 9 - PROPERTY TAXES (continued)

Public utility property tax revenues received in 2008 represent the collection of 2007 taxes. Public utility real and tangible personal property taxes received in 2008 became a lien on December 31, 2006, were levied after October 1, 2007, and are collected with real property taxes. Public utility real property is assessed at 35 percent of true value; public utility tangible personal property is currently assessed at varying percentages of true value.

Tangible personal property tax revenues received in 2008 (other than public utility property) represent the collection of 2008 taxes. Tangible personal property taxes received in 2008 were levied after October 1, 2007, on the true value as of December 31, 2007. 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 2008 is 6.25 percent. This will be reduced to 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, 2008, 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 2008 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, 2008, was \$6.10 per \$1,000 of assessed value. The assessed values of real property, public utility property, and tangible personal property upon which 2008 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$105,317,520
Commercial/Industrial	33,324,560
Public Utility Real	30,840
Public Utility Personal	4,732,570
Tangible Personal	841,140
Total	\$144,246,630

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 10 - PAYMENT IN LIEU OF TAXES

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

NOTE 11 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2008, was as follows:

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$516,482			\$516,482
Construction in Progress	86,321	\$577,014	(\$652,880)	10,455
Total Nondepreciable Capital Assets	602,803	577,014	(652,880)	526,937
Depreciable Capital Assets				
Land Improvements	232,038			232,038
Buildings and Improvements	1,729,498			1,729,498
Furniture, Fixtures, and Equipment	1,051,464	10,650		1,062,114
Vehicles	1,777,772	12,500	(20,144)	1,770,128
Streets	7,908,652	667,054		8,575,706
Total Depreciable Capital Assets	12,699,424	690,204	(20,144)	13,369,484
Less Accumulated Depreciation for				
Land Improvements	(24,579)	(11,602)		(36,181)
Buildings and Improvements	(399,849)	(38,603)		(438,452)
Furniture, Fixtures, and Equipment	(571,927)	(77,693)		(649,620)
Vehicles	(1,297,942)	(71,889)	20,144	(1,349,687)
Streets	(5,180,310)	(201,451)		(5,381,761)
Total Accumulated Depreciation	(7,474,607)	(401,238)	20,144	(7,855,701)
Total Depreciable Capital Assets, Net	5,224,817	288,966	(652,880)	5,513,783
Governmental Activities Capital Assets, Net	\$5,827,620	\$865,980	(652,880)	\$6,040,720
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552			\$12,552
Construction in Progress	1,968,457	\$5,146,588	(\$1,864,223)	5,250,822
Total Nondepreciable Capital Assets	1,981,009	5,146,588	(1,864,223)	5,263,374

(Continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 11 - CAPITAL ASSETS (Continued)

	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
Business-Type Activities:				
Depreciable Capital Assets				
Land Improvements	\$13,965			\$13,965
Buildings and Improvements	11,033,495	\$719,602		11,753,097
Furniture, Fixtures, and Equipment	694,104	34,114		728,218
Vehicles	79,958	27,995		107,953
Water, Sewer, and Storm Sewer Lines	2,564,231	1,154,876		3,719,107
Total Depreciable Capital Assets	<u>14,385,753</u>	<u>1,936,587</u>		<u>16,322,340</u>
Less Accumulated Depreciation for				
Land Improvements	(5,237)	(698)		(5,935)
Buildings and Improvements	(2,435,079)	(206,184)		(2,641,263)
Furniture, Fixtures, and Equipment	(222,881)	(45,446)		(268,327)
Vehicles	(37,942)	(13,668)		(51,610)
Water, Sewer, and Storm Sewer Lines	(559,859)	(51,287)		(611,146)
Total Accumulated Depreciation	<u>(3,260,998)</u>	<u>(317,283)</u>		<u>(3,578,281)</u>
Total Depreciable Capital Assets, Net	<u>11,124,755</u>	<u>1,619,304</u>		<u>12,744,059</u>
Business-Type Activities Capital Assets, Net	<u>\$13,105,764</u>	<u>\$6,765,892</u>	<u>(\$1,864,223)</u>	<u>\$18,007,433</u>

Business-type activities accepted contributions of depreciable capital assets with a fair value of \$3,995 during 2008.

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$69,131
Security of Persons and Property - Fire	44,360
Public Health	10,442
Leisure Time Activities	11,405
Transportation	247,857
General Government	18,043
Total Depreciation Expense - Governmental Activities	<u>\$401,238</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 12 - INTERFUND RECEIVABLES/PAYABLES

At December 31, 2008, the General Fund had an interfund receivable, in the amount of \$31,548, for a loan made to other governmental funds. Of this amount, \$27,761 is not scheduled to be collected within one year.

Other governmental funds had an interfund receivable, in the amount of \$1,953, for a short-term loan.

NOTE 13 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2008, the City contracted with the Ohio Government Risk Management Plan, an insurance purchasing pool, for the following coverage:

<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Blanket Building and Personal Property	\$14,355,046	\$1,000
Special Property	1,625,942	1,000
General Liability		
Occurrence	2,000,000	
Aggregate	4,000,000	
Employer's Liability		
Occurrence	2,000,000	
Aggregate	2,000,000	
Employee Benefits		
Occurrence	1,000,000	
Aggregate	3,000,000	
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
Builders Risk	500,000	

There has been no significant reduction in insurance coverage from 2007, and no insurance settlement has exceeded insurance coverage during the last three years.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 13 - RISK MANAGEMENT (continued)

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, 2008, the City had \$63 on deposit with OME-RESA.

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

For 2008, 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 Comp Management 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 14 - CONTRACTUAL COMMITMENTS

At December 31, 2008, the City had contractual commitments as follows:

<u>Company</u>	<u>Project</u>	<u>Amount Remaining on Contract</u>
Brint Electric	Phase I WWTP Electric	\$94,781
Brint Electric	Phase II WWTP Electric	272,718
Elite Excavating	Buckeye Blvd Waterline Replacement	95,809
Floyd Browne	Engineer - Perry St Repaving	14,960
Floyd Browne	Engineer - Environmental Waterworks Parks	92,623
Floyd Browne	Engineer - Phase I WWTP	48,637
Floyd Browne	Engineer - Phase II WWTP	33,739
Floyd Browne	Engineer - Buckeye Blvd Engineering	17,650

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 14 - CONTRACTUAL COMMITMENTS (continued)

Company	Project	Amount Remaining on Contract
Industrial Power Systems	Phase I WWTP Improvement	\$6,132
Industrial Power Systems	Phase II WWTP Improvement	7,149
7L Construction	Street Resurfacing Program- Phase I	113,263
Mosser Construction	Phase I WWTP Improvement	787,080
Mosser Construction	Phase II WWTP Improvement	780,158
Rietschlen Construction	Buckeye Blvd Roadway	210,808
Warner Mechanical Corp.	Phase I WWTP Improvement	83,177
Warner Mechanical Corp.	Phase II WWTP Improvement	50,579
Total		<u>\$2,709,263</u>

NOTE 15 - DEFINED BENEFIT PENSION PLANS

A. Ohio Public Employees Retirement System

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 15 - DEFINED BENEFIT PENSION PLANS (continued)

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions. For the year ended December 31, 2008, members in state and local classifications contributed 10 percent of covered payroll, public safety and law enforcement members contributed 10.1 percent.

The City's contribution rate for 2008 was 14 percent of covered payroll; 7 percent was used to fund pension obligations with the remainder allocated to fund the postemployment health care plan. 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, 2008, 2007, and 2006 was \$98,476, \$151,990, and \$166,962, respectively; 89 percent has been contributed for 2008 and 100 percent for 2007 and 2006. Contributions to the member-directed plan for 2008 were \$20,416 made by the City and \$14,582 made by the plan members.

B. Ohio Police and Fire Pension Fund

Plan Description - The City contributes to the Ohio Police and Fire Pension Fund (OPF), a cost-sharing, multiple-employer defined benefit pension plan. OPF provides retirement and disability pension benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OPF issues a 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 - 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 and 24 percent for firefighters. Contribution rates are established by State statute. For 2008, 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, 2008, was \$79,860, for the year ended December 31, 2007, was \$93,071, and for the year ended December 31, 2006, was \$86,450. For 2008, 69 percent has been contributed for police. The full amount has been contributed for 2007 and 2006.

NOTE 16 - 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

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 2008, local government employers contributed 14 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 7 percent of covered payroll for 2008.

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.

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2008, 2007, and 2006 was \$118,892, \$109,030, and \$86,257, respectively; 89 percent has been contributed for 2008 and 100 percent for 2007 and 2006.

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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 16 - POSTEMPLOYMENT BENEFITS (continued)

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, 2008, 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.

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police for the year ended December 31, 2008, was \$42,279, for the year ended December 31, 2007, was \$49,273, and for the year ended December 31, 2006, was \$57,020. For 2008, 69 percent has been contributed for police. The full amount has been contributed for 2007 and 2006.

NOTE 17 - 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.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 17 - COMPENSATED ABSENCES (continued)

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

NOTE 18 - SHORT-TERM OBLIGATIONS

The changes in the City's notes payable during 2008 were as follows:

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008
<u>Governmental Activities</u>					
<u>General Obligation Bond Anticipation Notes</u>					
2007 Fire Station	4.94%	\$159,100		\$159,100	
2007 Various Purpose	3.93	175,000		175,000	
2008 Fire Station	2.49		\$100,000		\$100,000
Total Governmental Activities		\$334,100	\$100,000	\$334,100	\$100,000

Business-Type Activities

General Obligation Bond Anticipation Notes

Sewer

2007 Sanitary Sewerage System	3.88%	\$695,000		\$695,000	
2007 Various Purpose	3.93	750,000		750,000	
2008 Sanitary Sewerage System	2.47		\$2,300,000	2,300,000	
Total Business-Type Activities		\$1,445,000	\$2,300,000	\$3,745,000	

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 18 - SHORT-TERM OBLIGATIONS (continued)

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 had an interest rate of 3.93 percent and matured on September 19, 2008. The notes were paid from the Second and Laurel capital projects fund and the Sewer enterprise fund.

On April 24, 2008, the City issued bond anticipation notes, in the amount of \$100,000, to partially 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 had an interest rate of 2.49 percent and matured on April 24, 2009. The notes were paid from the General Bond Retirement debt service fund.

On October 25, 2007, the City issued \$695,000 in bond anticipation notes for sewer system improvements. The notes had an interest rate of 3.88 percent and matured on September 19, 2008. The notes were paid from the Sewer enterprise fund.

On February 7, 2008, the City issued \$2,300,000 in bond anticipation notes for sewer system improvements. The notes had an interest rate of 2.47 percent and matured on September 19, 2008. The notes were paid from the Sewer enterprise fund, with the proceeds of general obligation bonds issued in September 2008.

NOTE 19 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2008, was as follows:

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Due Within One Year
<u>Governmental Activities</u>						
2007 Fire Station Notes	4.94%	\$100,000		\$100,000		
<u>General Obligation Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$84,260)	6.22	30,593		4,055	\$26,538	\$4,423
2002 Various Purpose (Original Amount \$1,271,000)	2.855	187,709		187,709		
2008 Various Purpose (Original Amount \$3,990,000)	3.750		\$180,000		180,000	5,000
Total General Obligation Bonds		218,302	180,000	191,764	206,538	9,423
<u>Special Assessment Bonds</u>						
1990 South Madison Street (Original Amount \$132,500)	7.4	21,000		7,000	14,000	7,000
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	52,407		6,945	45,462	7,577
1995 Fulton Street (Original Amount \$48,530)	6.5	24,000		3,000	21,000	3,000
Total Special Assessment Bonds		97,407		16,945	80,462	17,577

(continued)

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

	Interest Rate	Balance December 31, 2007	Additions	Reductions	Balance December 31, 2008	Due Within One Year
<u>Governmental Activities</u> (continued)						
Other Long-Term Obligations						
Capital Leases Payable		\$358,688		\$76,256	\$282,432	\$80,279
Compensated Absences Payable		118,484	\$20,016	12,478	126,022	46,299
Total Other Long-Term Obligations		<u>477,172</u>	<u>20,016</u>	<u>88,734</u>	<u>408,454</u>	<u>126,578</u>
Total Governmental Activities		<u>\$892,881</u>	<u>\$200,016</u>	<u>\$397,443</u>	<u>\$695,454</u>	<u>\$153,578</u>
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
2002 General Obligation Bonds (Original Amount \$220,000)	2.855%	\$39,292		\$39,292		
2008 General Obligation Bonds (Original Amount \$3,990,000)	3.75		\$3,810,000		\$3,810,000	\$100,000
Total General Obligation Bonds		<u>39,292</u>	<u>3,810,000</u>	<u>39,292</u>	<u>3,810,000</u>	<u>100,000</u>
<u>OPWC Loans</u>						
2002 OPWC Loans Payable (Original Amount \$28,000)	0	20,300		1,400	18,900	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)	0	171,889		10,418	161,471	10,418
2004 OPWC Loans Payable (Original Amount \$68,850)	0	60,243		3,442	56,801	3,442
Total OPWC Loans		<u>252,432</u>		<u>15,260</u>	<u>237,172</u>	<u>15,260</u>
<u>OWDA Loans</u>						
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54	742,945		47,949	694,996	50,606
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	4,431,501		196,866	4,234,635	204,599
2008 OWDA Loans Payable (Original Amount \$1,779,307)	1.00		1,779,307		1,779,307	
Total OWDA Loans		<u>5,174,446</u>	<u>1,779,307</u>	<u>244,815</u>	<u>6,708,938</u>	<u>255,205</u>
Other Long-Term Obligations						
Capital Leases Payable		37,935		37,935		
Compensated Absences Payable		79,254	37,265	8,877	107,642	43,711
Total Other Long-Term Obligations		<u>117,189</u>	<u>37,265</u>	<u>46,812</u>	<u>107,642</u>	<u>43,711</u>
Total Business-Type Activities		<u>\$5,583,359</u>	<u>\$5,626,572</u>	<u>\$346,179</u>	<u>\$10,863,752</u>	<u>\$414,176</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton and are payable from unvoted property tax revenues to the extent that other resources are not available to meet annual principal and interest payments. The bonds will be paid from the General Fund, the Second and Laurel capital projects fund, and the Water and Sewer enterprise funds. As of December 31, 2008, there were unspent proceeds, in the amount of \$28,528 for governmental activities and \$132,873 for business-type activities.

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

Special Assessment Bonds

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

Capital Leases Payable

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

Compensated Absences

The compensated absences liability will be paid from the fund from which the employees' salaries are paid. These funds include the General Fund, 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 \$237,172 and \$6,621,368, respectively. Principal and interest paid for the current year and net revenues were \$90,623 and \$236,195 from the Water enterprise fund and \$387,587 and \$331,051 for the Sewer enterprise fund.

The City's legal debt margin was \$14,861,852 at December 31, 2008.

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

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 19 - LONG-TERM OBLIGATIONS (continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2008, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2009	\$9,423	\$10,537	\$17,577	\$5,219
2010	9,423	8,559	17,577	4,037
2011	9,423	8,371	10,577	2,854
2012	9,423	7,910	10,577	2,189
2013	9,423	7,448	10,577	1,524
2014-2018	49,423	29,984	13,577	1,053
2019-2023	50,000	19,480		
2024-2028	60,000	8,714		
Total	<u>\$206,538</u>	<u>\$101,003</u>	<u>\$80,462</u>	<u>\$16,876</u>

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2008, from the business-type activities were as follows:

Year	General Obligation Bonds		OPWC Loans	OWDA Loans	
	Principal	Interest	Principal	Principal	Interest
2009	\$100,000	\$187,747	\$15,260	\$255,205	\$202,069
2010	135,000	151,986	15,260	266,043	191,229
2011	140,000	146,924	15,260	277,354	179,920
2012	145,000	141,674	15,260	289,157	168,116
2013	155,000	136,237	15,260	301,473	155,800
2014-2018	845,000	590,915	76,300	1,711,774	574,594
2019-2023	1,025,000	409,945	74,200	1,668,884	216,497
2024-2028	1,265,000	173,592	10,372	159,741	3,512
Total	<u>\$3,810,000</u>	<u>\$1,939,020</u>	<u>\$237,172</u>	<u>\$4,929,631</u>	<u>\$1,691,737</u>

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 20 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into capitalized leases for vehicles. The leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases", which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds and as a reduction of the liability in the enterprise funds. Principal payments in 2008 were \$76,256 for governmental funds and \$37,935 for enterprise funds.

	Governmental Activities
Vehicles	\$459,420
Less Accumulated Depreciation	(78,144)
Total	\$381,276

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, 2008.

Year	Governmental Activities	
	Principal	Interest
2009	\$80,279	\$12,779
2010	54,565	8,537
2011	57,062	6,040
2012	59,673	3,429
2013	30,853	698
Total	\$282,432	\$31,483

NOTE 21 - INTERFUND TRANSFERS

During 2008, the General Fund made transfers to other governmental funds, in the amount of \$1,014,814; \$371,214 as debt payments came due and \$643,600 to subsidize activities of the various funds. The General Fund also made transfers to the Water and Sewer enterprise funds, in the amount of \$794 each, to subsidize operations.

Other governmental funds made transfers to other governmental funds, in the amount \$103,407, as debt payments came due.

City of Port Clinton
Notes to the Basic Financial Statements
For the Year Ended December 31, 2008
(continued)

NOTE 22 - 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. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

NOTE 23 - 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, 2008, to December 31, 2008, 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.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed Through Ohio Department of Development</i>			
Community Development Block Grant - States Program	AC-02 166-1	14.228	\$ 121,129
Home Investment Partnerships Program	AC-02 166-2	14.239	<u>323,750</u>
Total passed through Ohio Department of Development			<u>\$ 444,879</u>
<u>U.S. ENVIRONMENTAL PROTECTION AGENCY</u>			
Surveys, Studies, Investigations and Special Purpose Grants	n/a	66.606	<u>885,486</u>
Total Federal Financial Assistance			<u><u>\$ 1,330,365</u></u>

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

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURES SCHEDULE
FISCAL YEAR ENDED DECEMBER 31, 2008**

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B – HOME INVESTMENT PARTNERSHIPS - REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to eligible persons to rehabilitate homes, for rental housing rehabilitation, and down payment assistance. The Federal Department of Housing and Urban Development (HUD) granted money for these loans to the City, passed through the Ohio Department of Development. The initial loan of this money would be recorded as a disbursement on the accompanying Federal Awards Expenditures Schedule (the Schedule). Loans repaid, including interest are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are also included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2008, the gross amount of loans outstanding under this program was \$533,988.

NOTE C – MATCHING REQUIREMENTS

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



Mary Taylor, CPA

Auditor of State

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

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

To the Members of City Council:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Port Clinton, Ottawa County, (the City) as of and for the year ended December 31, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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 a certain deficiency in internal control over financial reporting that we consider a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in 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 City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

We consider finding 2008-001 described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

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 material weaknesses. We believe the finding described above is also a material weakness.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated December 30, 2009.

Compliance and Other Matters

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

We noted certain noncompliance or other matters that we reported to the City's management in a separate letter dated December 30, 2009.

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

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



Mary Taylor, CPA
Auditor of State

December 30, 2009



Mary Taylor, CPA

Auditor of State

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

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

To the Members of City Council:

Compliance

We have audited the compliance of the City of Port Clinton, Ottawa County (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that apply to each of its major federal programs for the year ended December 31, 2008. The summary of auditor's results section of the accompanying schedule of findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City of Port Clinton complied, in all material respects, with the requirements referred to above that apply to each of its major federal programs for the year ended December 31, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that OMB Circular A-133 requires us to report, which is described in the accompanying schedule as item 2008-002. In a separate letter to the City's management dated December 30, 2009, we reported other matters related to federal noncompliance not requiring inclusion in this report.

Internal Control Over Compliance

The City's management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could directly and materially affect a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *control deficiency* in internal control over compliance exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent or detect noncompliance with a federal program compliance requirement on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that the City's internal control will not prevent or detect more-than-inconsequential noncompliance with a federal program compliance requirement.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with a federal program's compliance requirements.

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

In a separate letter to the City's management dated December 30, 2009, we reported other matters related to internal control over federal compliance not requiring inclusion in this report.

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

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



Mary Taylor, CPA
Auditor of State

December 30, 2009

CITY OF PORT CLINTON
OTTAWA COUNTY

SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2008

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other significant deficiencies in internal control reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weaknesses reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Home Investment Partnership Program Grant CFDA 14.239 Surveys, Studies, Investigations and Special Purpose Grants – CFDA 66.606
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2008-001

Material Weakness

In 2008 the City was the beneficiary of \$262,044 of Ohio Public Work Commission (OPWC) money sent directly to the vendor by OPWC. The City did not record the receipt and expenditure of \$260,297 of this money. The accompanying financial statements were adjusted to reflect these amounts.

Sound financial reporting is the responsibility of the City Auditor and City Council and is essential to ensure the information provided to the readers of the financial statements and accompanying notes is complete and accurate.

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

Officials' Response:

The City Auditor and department heads will work together to communicate when these types of grants are received to ensure the transaction is recorded.

3. FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2008-002

Noncompliance Finding

OMB Circular A-133 §.200 requires Non-Federal entities that expend \$500,000 or more in a year in Federal awards shall have a single audit conducted except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section. **§.320** requires the audit, data collection form and reporting package shall be submitted within the earlier of 30 days after receipt of the auditor's report or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for the audit.

The City expended greater than \$500,000 in Federal Awards during 2008 and did not meet the nine month deadline. The City did not receive an extension to this filing requirement.

This situation could compromise the City's eligibility to participate in future federal grant and/or loan programs. We recommend the City's management monitor grant activity more diligently and institute procedures to help ensure a single audit or program-specific audit is conducted when required by OMB Circular A-133.

Officials' Response:

The City Auditor acknowledges it is the City's responsibility to meet the filing date requirement; however, they requested an extension for the filing requirement and received no response from the oversight agency approving or denying the request.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain</i>
2007-001	Bank Reconciliation and Supervisory Review	Yes	
2007-002	Segregation of Duties - Payroll Cycle	Yes	
2007-003	Segregation of Duties - Disbursements	No	Partially Corrected – Reduced to a management letter recommendation in this audit.
2007-004	Capital Asset Management	No	Not Corrected – Reduced to a management letter recommendation in this audit.
2007-005	Segregation of Duties – Cash and Investments	Yes	
2007-006	Disbursements Process	No	Partially corrected- Reduced to a management letter recommendation in this audit.
2007-007	Segregation of Duties – Water and Sewer Billing	No	Not Corrected – Reduced to a management letter recommendation in this audit.

**CITY OF PORT CLINTON
OTTAWA COUNTY**

**CORRECTIVE ACTION PLAN
OMB CIRCULAR A -133 §.315 (c)
DECEMBER 31, 2008**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2008-002	The City will appoint someone to monitor grant compliance which should assist in getting the audit released within 9 months from year end.	8/31/10	Larry Hartlaub, City Auditor



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
JANUARY 14, 2010**