

***CITY OF PORT CLINTON***

**OTTAWA COUNTY, OHIO**

**AUDIT REPORT**

**For the Year Ended December 31, 2015**







# Dave Yost • Auditor of State

City Auditor  
City of Port Clinton  
1868 E. Perry Street  
Port Clinton, Ohio 43452

We have reviewed the *Independent Auditor's Report* of the City of Port Clinton, Ottawa County, prepared by Charles E. Harris & Associates, Inc., for the audit period January 1, 2015 through December 31, 2015. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink that reads "Dave Yost".

Dave Yost  
Auditor of State

November 4, 2016

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**CITY OF PORT CLINTON**  
**OTTAWA COUNTY, OHIO**  
**Audit Report**  
**For the Year Ended December 31, 2015**

**TABLE OF CONTENTS**

| <b><u>TITLE</u></b>   | <b><u>PAGE</u></b> |
|---|--------------------|
| Independent Auditor's Report  | 1-2                |
| Combined Statement of Receipts, Disbursements and Changes in Fund<br>Cash Balances - All Governmental Fund Types -<br>For the Year Ended December 31, 2015              | 3                  |
| Combined Statement of Receipts, Disbursements and Changes in Fund<br>Cash Balances - All Proprietary and Fiduciary Fund Types -<br>For the Year Ended December 31, 2015 | 4                  |
| Notes to the Financial Statements   | 5-14               |
| Independent Auditor's Report on Internal Control Over Financial<br>Reporting and on Compliance and Other Matters Required by<br><i>Government Auditing Standards</i>    | 15-16              |
| Schedule of Findings  | 17-18              |
| Schedule of Prior Audit Findings  | 19                 |

**INDEPENDENT AUDITOR'S REPORT**

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

To the Members of City Council:

***Report on the Financial Statements***

We have audited the accompanying financial statements of the City of Port Clinton, Ottawa County, (the City) as of and for the year ended December 31, 2015.

***Management's Responsibility for the Financial Statements***

Management is responsible for preparing and fairly presenting these financial statements in accordance with the accounting principles generally accepted in the United States of America. This responsibility includes the designing, implementing and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse audit opinion.

***Basis for Adverse Opinion***

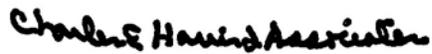
As described in Note 1 of the financial statements, the City prepared these financial statements using the accounting basis Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-2-03(D) permit. However, Ohio Administrative Code Section 117-2-03(B) requires these statements to follow accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumably material.

**Adverse Opinion**

In our opinion, because of the matter described in the *Basis for Adverse Opinion* paragraph, the financial statements do not present fairly the financial position, results of operations and cash flows, where applicable of the City of Port Clinton, Ottawa County as of and for the year ended December 31, 2015 in accordance with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated August 7, 2016, 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



**Charles E. Harris & Associates, Inc.**  
August 7, 2016

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <b>Governmental Fund Types</b> |                            |                         |                             | <b>Totals<br/>(Memorandum<br/>Only)</b> |
|---|--------------------------------|----------------------------|-------------------------|-----------------------------|---|
|   | <b>General</b>                 | <b>Special<br/>Revenue</b> | <b>Debt<br/>Service</b> | <b>Capital<br/>Projects</b> |   |
| <b>Cash Receipts</b>                                  |                                |                            |                         |                             |   |
| Property and Other Local Taxes                        | \$ 738,311                     | \$ 518,700                 | \$ -                    | \$ 20,161                   | \$ 1,277,172                            |
| Municipal Income Tax                                  | 2,300,363                      | -                          | -                       | -                           | 2,300,363                               |
| Intergovernmental                                     | 211,319                        | 402,935                    | -                       | 1,177                       | 615,431                                 |
| Special Assessments                                   | -                              | -                          | 4,572                   | 16,039                      | 20,611                                  |
| Charges for Services                                  | 87,206                         | 153,198                    | -                       | -                           | 240,404                                 |
| Fines, Licenses and Permits                           | 32,740                         | -                          | -                       | -                           | 32,740                                  |
| Earnings on Investments                               | 2,135                          | 2,829                      | -                       | 454                         | 5,418                                   |
| Miscellaneous   | 36,759                         | 9,545                      | -                       | 10,305                      | 56,609                                  |
| <i>Total Cash Receipts</i>                            | <u>3,408,833</u>               | <u>1,087,207</u>           | <u>4,572</u>            | <u>48,136</u>               | <u>4,548,748</u>                        |
| <b>Cash Disbursements</b>                             |                                |                            |                         |                             |   |
| Current:  |                                |                            |                         |                             |   |
| Security of Persons and Property                      | 1,867,797                      | 352,727                    | -                       | -                           | 2,220,524                               |
| Leisure Time Activities                               | 74,478                         | -                          | -                       | -                           | 74,478                                  |
| Community Environment                                 | 3,154                          | -                          | -                       | -                           | 3,154                                   |
| Basic Utility Services                                | -                              | -                          | -                       | 113,543                     | 113,543                                 |
| Transportation  | 5,074                          | 413,239                    | -                       | -                           | 418,313                                 |
| General Government                                    | 1,233,649                      | 145,912                    | 131                     | 76                          | 1,379,768                               |
| Capital Outlay  | -                              | 267,791                    | -                       | 251,429                     | 519,220                                 |
| Debt Service:   |                                |                            |                         |                             |   |
| Principal Retirement                                  | 30,855                         | 17,688                     | 3,000                   | 20,306                      | 71,849                                  |
| Interest & Fiscal Charges                             | 1,289                          | 947                        | 195                     | 7,147                       | 9,578                                   |
| <i>Total Cash Disbursements</i>                       | <u>3,216,296</u>               | <u>1,198,304</u>           | <u>3,326</u>            | <u>392,501</u>              | <u>4,810,427</u>                        |
| <i>Excess of Receipts Over (Under) Disbursements</i>  | 192,537                        | (111,097)                  | 1,246                   | (344,365)                   | (261,679)                               |
| <b>Other Financing Receipts (Disbursements)</b>       |                                |                            |                         |                             |   |
| Other Debt Proceeds                                   | -                              | 90,692                     | -                       | -                           | 90,692                                  |
| Transfers In  | -                              | 164,994                    | -                       | 436,874                     | 601,868                                 |
| Transfers Out   | (601,868)                      | -                          | -                       | -                           | (601,868)                               |
| <i>Total Other Financing Receipts (Disbursements)</i> | <u>(601,868)</u>               | <u>255,686</u>             | <u>-</u>                | <u>436,874</u>              | <u>90,692</u>                           |
| <i>Net Change in Fund Cash Balances</i>               | (409,331)                      | 144,589                    | 1,246                   | 92,509                      | (170,987)                               |
| <i>Fund Cash Balances, January 1</i>                  | <u>465,146</u>                 | <u>700,400</u>             | <u>36,544</u>           | <u>430,060</u>              | <u>1,632,150</u>                        |
| <b>Fund Cash Balances, December 31</b>                |                                |                            |                         |                             |   |
| Nonspendable  | 20,794                         | -                          | -                       | -                           | 20,794                                  |
| Restricted  | -                              | 844,989                    | 37,790                  | 517,273                     | 1,400,052                               |
| Assigned  | -                              | -                          | -                       | 5,296                       | 5,296                                   |
| Unassigned  | 35,021                         | -                          | -                       | -                           | 35,021                                  |
| <i>Fund Cash Balances, December 31</i>                | <u>\$ 55,815</u>               | <u>\$ 844,989</u>          | <u>\$ 37,790</u>        | <u>\$ 522,569</u>           | <u>\$ 1,461,163</u>                     |

The notes to the financial statements are an integral part of this statement.

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
COMBINED STATEMENT OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN FUND CASH BALANCES  
ALL PROPRIETARY AND FIDUCIARY FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

|   | <u>Proprietary<br/>Fund Types<br/>Enterprise</u> | <u>Fiduciary<br/>Fund Types<br/>Agency</u> | <u>Totals<br/>(Memorandum<br/>Only)</u> |
|---|--|--|---|
| <b>Operating Cash Receipts</b>                      |  |  |   |
| Charges for Services                                | \$ 4,638,402                                     | \$ -                                       | \$ 4,638,402                            |
| Fines, Licenses and Permits                         | 4,215  | -  | 4,215                                   |
| Miscellaneous                                       | 56,034   | 15,894                                     | 71,928                                  |
| <i>Total Operating Cash Receipts</i>                | 4,698,651  | 15,894                                     | 4,714,545                               |
| <b>Operating Cash Disbursements</b>                 |  |  |   |
| Personal Services                                   | 1,207,439  | -  | 1,207,439                               |
| Fringe Benefits                                     | 404,935  | -  | 404,935                                 |
| Contractual Services                                | 909,034  | -  | 909,034                                 |
| Supplies and Materials                              | 734,828  | -  | 734,828                                 |
| Other   | 14,700   | 15,894                                     | 30,594                                  |
| <i>Total Operating Cash Disbursements</i>           | 3,270,936  | 15,894                                     | 3,286,830                               |
| <i>Operating Income (Loss)</i>                      | 1,427,715  | -  | 1,427,715                               |
| <b>Non-Operating Receipts (Disbursements)</b>       |  |  |   |
| Other Debt Proceeds                                 | 812,676  | -  | 812,676                                 |
| Payroll Deductions                                  | -  | 1,098,880                                  | 1,098,880                               |
| Payment of Payroll Deductions                       | -  | (1,087,002)                                | (1,087,002)                             |
| Capital Outlay                                      | (1,254,172)                                      | -  | (1,254,172)                             |
| Principal Retirement                                | (1,015,263)                                      | -  | (1,015,263)                             |
| Interest and Other Fiscal Charges                   | (325,379)  | -  | (325,379)                               |
| <i>Total Non-Operating Receipts (Disbursements)</i> | (1,782,138)                                      | 11,878                                     | (1,770,260)                             |
| <i>Net Change in Fund Cash Balance</i>              | (354,423)  | 11,878                                     | (342,545)                               |
| <i>Fund Cash Balances, January 1</i>                | 923,517  | 17,163                                     | 940,680                                 |
| <i>Fund Cash Balances, December 31</i>              | <u>\$ 569,094</u>                                | <u>\$ 29,041</u>                           | <u>\$ 598,135</u>                       |

*The notes to the financial statements are an integral part of this statement.*

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements  
For the year ended December 31, 2015**

**1. Summary of Significant Accounting Policies**

**A. Description of the Entity**

The constitution and laws of the State of Ohio establish the rights and privileges of the City of Port Clinton, Ottawa County, (the City) as a body corporate and politic. A publicly-elected seven-member Council and the elected mayor directs the City. The City provides general governmental services, water and sewer services, park and recreation operations, road repair and maintenance, fire protection services, and police services.

The City participates in a public entity risk pool. Note 8 to the financial statements provide additional information for this entity. This organization is:

Public Entity Risk Pool:

Ohio Government Risk Management Plan, a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("members"). The plan was legally separate its member governments.

The City's management believes these financial statements present all activities for which the City is financially accountable.

**B. Accounting Basis**

Although required by Ohio Administrative Code 117-2-03 to prepare its financial report in accordance with accounting principles generally accepted in the United States of America, the City has chosen to prepare its financial statements on a basis of accounting not in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements accounting basis. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

**C. Deposits and Investments**

The City's accounting basis includes investments as assets. This basis does not record disbursements for investment purchases or receipts for investment sales. This basis records gains or losses at the time of sale as receipts or disbursements, respectively.

**D. Fund Accounting**

The City uses fund accounting to segregate cash and investments that are restricted as to use. The City classifies its funds into the following types:

**1. General Fund**

The General Fund reports all financial resources except those required to be accounted for in another fund.

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**1. Summary of Significant Accounting Policies (continued)**

**D. Fund Accounting (continued)**

**2. Special Revenue Funds**

These funds account for proceeds from specific sources (other than trusts or major capital projects) that are restricted to expenditure for specific purposes. The City had the following significant Special Revenue Funds:

Street Construction, Maintenance and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing City streets.

Main Thoroughfare Fund – This fund receives state mandated license renewal fees for the purpose of repairing roads within the City that have been designated as Main Thoroughfares by the Ohio Department of Transportation.

**3. Debt Service Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. The City had the following significant Debt Service Fund:

Special Assessment Bond Retirement Fund – This fund is used to account for the assessments collected from property owners for the purpose of repaying various special assessment bonds.

**4. Capital Project Funds**

These funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The City had the following significant Capital Project Fund:

Municipal Purpose Fund – This fund accounts for special assessments and other resources restricted for capital acquisition and improvements.

**5. Enterprise Funds**

These funds account for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The City had the following significant Enterprise Funds:

Water Fund - This fund receives charges for services from residents to cover water service costs.

Sewer Fund - This fund receives charges for services from residents to cover sewer service costs.

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**1. Summary of Significant Accounting Policies (continued)**

**D. Fund Accounting (continued)**

**6. Fiduciary Funds**

Fiduciary funds include agency funds. Agency funds are purely custodial in nature and are used to hold resources for individuals, organizations or other governments. The City disburses these funds as directed by the individual, organization or other government. 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.

**E. Budgetary Process**

The Ohio Revised Code requires that each fund (except agency funds) be budgeted annually.

**1. Appropriations**

Budgetary disbursements (that is, disbursements and encumbrances) may not exceed appropriations at the object level of control and appropriations may not exceed estimated resources. Council must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure.

**2. Estimated Resources**

Estimated resources include estimates of cash to be received (budgeted receipts) plus unencumbered cash as of January 1. The County Budget Commission must also approve estimated resources.

**3. Encumbrances**

The Ohio Revised Code requires the City to reserve (encumber) appropriations when individual commitments are made. Encumbrances outstanding at year end are carried forward to the subsequent year.

A summary of 2015 and 2014 budgetary activity appears in Note 3.

**F. Fund Balance**

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

**1. Nonspendable**

The City classifies assets as *nonspendable* when legally or contractually required to maintain the amounts intact.

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**1. Summary of Significant Accounting Policies (continued)**

**2. Restricted**

Fund balance is *restricted* when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or is imposed by law through constitutional provisions.

**3. Committed**

Council can *commit* amounts via formal action (resolution or ordinance). The City must adhere to these commitments unless the Council amends the resolution or ordinance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed to satisfy contractual requirements.

**4. Assigned**

Assigned fund balances are intended for specific purposes but do not meet the criteria to be classified as *restricted* or *committed*. Governmental funds other than the general fund report all fund balances as *assigned* unless they are restricted or committed. In the general fund, *assigned* amounts represent intended uses established by Council or a City official delegated that authority by resolution or ordinance, or by State Statute.

**5. Unassigned**

Unassigned fund balance is the residual classification for the general fund and includes amounts not included in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance.

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

**G. Property, Plant, and Equipment**

The City records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

**H. Accumulated Leave**

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**2. Equity in Pooled Deposits and Investments**

The City maintains a deposit and investments pool all funds use. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of deposits and investments at December 31 was as follows:

|                                |             |
|--------------------------------|-------------|
|                                | 2015        |
| Demand deposits                | \$896,067   |
| Certificates of deposit        | 500,000     |
| First Federal Savings          | 600,000     |
| Perpetual Care Savings         | 57,060      |
| Total deposits                 | 2,053,127   |
| <br>                           |             |
| Downtown Improvement Note      | 5,296       |
| Total Investments              | 5,296       |
| Total deposits and investments | \$2,058,423 |

The City also had \$875 of petty cash on hand as of December 31, 2015.

**Deposits:** Deposits are insured by the Federal Depository Insurance Corporation or collateralized by the financial institution's public entity deposit pool.

**3. Budgetary Activity**

Budgetary activity for the year ending December 31, 2015 follows:

| 2015 Budgeted vs. Actual Receipts |                      |                    |               |
|-----------------------------------|----------------------|--------------------|---------------|
| Fund Type                         | Budgeted<br>Receipts | Actual<br>Receipts | Variance      |
| General                           | \$5,417,960          | \$3,408,833        | (\$2,009,127) |
| Special Revenue                   | 2,212,294            | 1,342,893          | (869,401)     |
| Debt Service                      | 15,000               | 4,572              | (10,428)      |
| Capital Projects                  | 297,731              | 485,010            | 187,279       |
| Enterprise                        | 5,568,545            | 5,511,327          | (57,218)      |
| Total                             | \$13,511,530         | \$10,752,635       | (\$2,758,895) |

| 2015 Budgeted vs. Actual Budgetary Basis Disbursements |                            |                            |             |
|--|----------------------------|----------------------------|-------------|
| Fund Type  | Appropriation<br>Authority | Budgetary<br>Disbursements | Variance    |
| General  | \$5,800,353                | \$3,818,164                | \$1,982,189 |
| Special Revenue  | 1,802,267                  | 1,198,304                  | 603,963     |
| Debt Service   | 8,545                      | 3,326                      | 5,219       |
| Capital Projects                                       | 491,482                    | 392,501                    | 98,981      |
| Enterprise   | 6,438,821                  | 5,865,750                  | 573,071     |
| Total  | \$14,541,468               | \$11,278,045               | \$3,263,423 |

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**4. Property Tax**

Real property taxes become a lien on January 1 preceding the October 1 date for which the Council adopted tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The financial statements include homestead and rollback amounts the State pays as Intergovernmental receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half is due December 31. The second half payment is due the following June 20.

Public utilities are also taxed on personal and real property located within the City.

Ottawa County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on behalf of the City.

**5. Local Income Tax**

The City levies a municipal income tax of two (2) percent on substantially all earned income arising from employment, residency, or business activities within the City as well as certain income of residents earned outside of the City.

Employers within the City withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**6. Debt**

Debt outstanding at December 31, 2015 was as follows:

|  | <u>Principal</u>     | <u>Interest Rate</u> |
|--|----------------------|----------------------|
| General Obligation Bond - Governmental | \$ 140,000           | 3.75%                |
| General Obligation Bond - Proprietary  | 2,795,000            | 3.75%                |
| OPWC Loans                             | 129,652              | 0.00%                |
| OWDA Loans                             | 10,489,294           | 1-5.54%              |
| Downtown Note                          | 5,296                | 5.70%                |
| Capital Leases - (Cruisers & Sweeper)  | 109,341              | 2.64-5.13%           |
| Total                                  | <u>\$ 13,668,583</u> |                      |

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton and are payable from un-voted 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.

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.

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**6. Debt (continued)**

OPWC Loans

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

The City has entered into loan agreements with the Ohio Water Development Authority for construction of a water tower, wastewater treatment plant improvements, Third Street Sewer separation, Second Street water main replacement, Third Street Waterline, Sixth Street water lines, sanitary and storm sewer improvements, water main replacement, water distribution system, and sewer interceptor. 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. Certain loans do not have amortization schedules prepared yet.

Capital Leases

Capital lease obligations will be paid from the fund that maintains custody of the related asset. The City leases several police cruisers, a street sweeper and a sewer truck. The street sweeper payments are split 50/50 between the Special Revenue and the Enterprise fund.

The sanitary and storm sewer separation, water main replacement, and the interceptor sewer 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.

Amortization of the above debt, including interest, is scheduled as follows:

| Year ending<br>December 31: | General<br>Obligation<br>Bonds | General<br>Obligation<br>Bonds | OPWC Loans | OWDA Loans   | Capital Leases | Downtown<br>Note |
|-----------------------------|--------------------------------|--------------------------------|------------|--------------|----------------|------------------|
|                             | Governmental                   | Proprietary                    |            |              |                |                  |
| 2016                        | \$15,875                       | \$282,622                      | \$15,260   | \$948,682    | \$107,235      | \$5,598          |
| 2017                        | 15,500                         | 281,435                        | 15,260     | 948,683      | 5,357          | -                |
| 2018                        | 15,100                         | 284,635                        | 15,260     | 948,683      | -              | -                |
| 2019                        | 14,700                         | 282,435                        | 15,260     | 998,642      | -              | -                |
| 2020                        | 14,300                         | 285,035                        | 15,260     | 852,497      | -              | -                |
| 2021-2025                   | 65,370                         | 1,433,545                      | 53,352     | 3,533,201    | -              | -                |
| 2026-2030                   | 43,825                         | 862,000                        | -          | 1,905,831    | -              | -                |
| 2031-2035                   | -                              | -                              | -          | 394,960      | -              | -                |
| 2036-2040                   | -                              | -                              | -          | 154,633      | -              | -                |
| 2041-2043                   | -                              | -                              | -          | 92,780       | -              | -                |
| Total                       | \$184,670                      | \$3,711,707                    | \$129,652  | \$10,778,592 | \$112,592      | \$5,598          |

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**7. Retirement Systems**

The City's certified full-time Fire Fighters and full-time Police Officers belong to the Police and Fire Pension Fund (OP&F). Other employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes these plans' benefits, which include postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. From January 1, 2015 to July 1, 2015, OP&F participants contributed 11.5% of their wages and from July 1, 2015 to December 31, 2015 OP&F participants contributed 12.25% of their wages. For 2015 and 2014, the City contributed to OP&F an amount equal to 19.5% of full-time police members' wages and 24% of full-time fire fighters' wages, respectively. For 2015, OPERS members contributed 10% of their gross salaries and the City contributed an amount equaling 14% of participants' gross salaries. The City has paid all contributions required through December 31, 2015.

**8. Risk Management**

The City belongs to the Ohio Plan Risk Management, Inc. (OPRM) - formerly known as the Ohio Government Risk Management Plan, (the "Plan"), a non-assessable, unincorporated non-profit association providing a formalized, jointly administered self-insurance risk management program and other administrative services to Ohio governments ("Members"). The Plan is legally separate from its member governments.

Pursuant to Section 2744.081 of the Ohio Revised Code, the plan provides property, liability, errors and omissions, law enforcement, automobile, excess liability, crime, surety and bond, inland marine and other coverages to its members sold through fourteen appointed independent agents in the State of Ohio.

OPRM coverage programs are developed specific to each member's risk management needs and the related premiums for coverage are determined through the application of uniform underwriting criteria addressing the member's exposure to loss, except OPRM retains 41.5% (effective November 1, 2011) of the premium and losses on the first \$250,000 casualty treaty and 10% of the first \$1,000,000 property treaty. Effective November 1, 2012 (and through October 2014) the plan increased its retention to 50% of the first \$250,000 casualty treaty. The Plan's property retention remained unchanged from prior years. This change was made to balance the reinsurance market conditions. Members are only responsible for their self-retention (deductible) amounts, which vary from member to member. OPRM had 774 and 783 members as of December 31, 2013 and 2014, respectively (the latest information available).

Plan members are responsible to notify the Plan of their intent to renew coverage by their renewal date. If a member chooses not to renew with the Plan, they have no other financial obligation to the Plan, but still need to promptly notify the Plan of any potential claims occurring during their membership period. The former member's covered claims, which occurred during their membership period, remain the responsibility of the Plan.

Settlement amounts did not exceed insurance coverage for the past three fiscal years.

The Pool's audited financial statements conform with generally accepted accounting principles, and reported the following assets, liabilities and equity at December 31, 2013 and 2014 (the latest information available).

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**8. Risk Management**

|                 | <b>2013</b>  | <b>2014</b>  |
|-----------------|--------------|--------------|
| Assets          | \$13,774,304 | \$14,830,185 |
| Liabilities     | (7,968,395)  | (8,942,504)  |
| Members' Equity | \$5,805,909  | \$5,887,681  |

You can read the complete audited financial statements for OPRM at the Plan's website, [www.ohioplan.org](http://www.ohioplan.org).

**9. Contingent Liabilities**

The City may be a defendant in other lawsuits and although management cannot presently determine the outcome of the suit, management believes that the resolution of this matter will not materially adversely affect the City's financial condition.

**10. Change in Basis of Accounting/Prior Period Adjustments**

For 2015, the City ceased to report using generally accepted accounting principles and reported on the cash basis as described in Note 1.

The implementation of this change had the following effects on net position/fund equity of the major and nonmajor funds and governmental and business-type activities of the City as they were previously reported.

|  | General<br>Fund | Municipal<br>Purposes | Other<br>Governmental | Water       | Sewer        |
|--|-----------------|-----------------------|-----------------------|-------------|--------------|
| Fund balance at 12/31/14, As previously reported | \$559,733       | \$306,833             | \$1,804,733           | \$2,902,124 | \$14,958,798 |
| Elimination of accruals                          | (94,587)        | (306,833)             | (1,804,733)           | (2,902,124) | (14,958,798) |
| As restated at 1/1/15                            | \$465,146       | \$0                   | \$0                   | \$0         | \$0          |

|  | Special<br>Revenue | Debt<br>Service | Capital<br>Projects | Enterprise | Agency   |
|--|--------------------|-----------------|---------------------|------------|----------|
| Fund balance at 12/31/14, As previously reported | \$0                | \$0             | \$0                 | \$0        | \$0      |
| Add cash basis balance                           | 700,400            | 36,544          | 430,060             | 923,517    | 17,163   |
| As restated at 1/1/15                            | \$700,400          | \$36,544        | \$430,060           | \$923,517  | \$17,163 |

**City of Port Clinton  
Ottawa County**

**Notes to the Financial Statements (continued)  
December 31, 2015**

**10. Change in Basis of Accounting/Prior Period Adjustments (continued)**

|  | Governmental<br>Activities | Business-type<br>Activities |
|--|----------------------------|-----------------------------|
| Fund balance at 12/31/14, As previously reported | \$13,577,646               | \$17,860,922                |
| Elimination of accruals                          | (13,577,646)               | (17,860,922)                |
| As restated at 1/1/15                            | \$0                        | \$0                         |

**11. Compliance**

Ohio Administrative Code, Section 117-2-03 (B), requires the City to prepare its annual financial report in accordance with generally accepted accounting principles. However, the City prepared its financial statements on a cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The accompanying financial statements omit assets, liabilities, net position/fund balances, and disclosures that, while material, cannot be determined at this time. The City can be fined and various other administrative remedies may be taken against the City.

Rockefeller Building  
614 W Superior Ave Ste 1242  
Cleveland OH 44113-1306  
Office phone - (216) 575-1630  
Fax - (216) 436-2411

***Charles E. Harris & Associates, Inc.***  
*Certified Public Accountants*

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**INDEPENDENT AUDITOR'S 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, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the City of Port Clinton, Ottawa County (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements and have issued our report thereon dated August 7, 2016, wherein we issued an adverse opinion because the City followed financial reporting provisions Ohio Revised Code Section 117.38 and Ohio Administrative Code Section 117-0-03(D) permit rather than generally accepted accounting principles.

***Internal Control Over Financial Reporting***

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinions on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Therefore, unidentified material weaknesses or significant deficiencies may exist. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider material weaknesses. We consider findings 2015-002 and 2015-003 to be material weaknesses.

***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, opining 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 an instance of noncompliance or other matter we must report under *Government Auditing Standards*, which is described in the accompanying schedule of findings as item 2015-001.

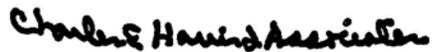
We also noted certain matters not requiring inclusion in this report that we reported to the City's management in a separate letter dated August 7, 2016.

***City's Responses to Findings***

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

***Purpose of this Report***

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



***Charles E. Harris and Associates, Inc.***  
August 7, 2016

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
SCHEDULE OF FINDINGS  
December 31, 2015**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS</b> |
|--|

**Finding Number 2015-001 – Noncompliance Citation**

**Ohio Rev. Code § 117.38** provides that each public office shall file a financial report for each fiscal year. The Auditor of State may prescribe forms by rule or may issue guidelines, or both, for such reports. If the Auditor of State has not prescribed a rule regarding the form for the report, the public office shall submit its report on the form utilized by the public office. Ohio Administrative Code Section 117-2-03 further clarifies the requirements of Ohio Rev. Code § 117.38.

**Ohio Adm. Code § 117-2-03 (B)** requires all cities to file annual financial reports in accordance with generally accepted accounting principles (GAAP). The City prepared its financial statements in accordance with the cash accounting basis. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. Pursuant to Ohio Rev. Code Section 117.38 the City may be fined and subject to various other administrative remedies for its failure to file the required financial report.

The City should prepare its financial statements according to generally accepted accounting principles to provide the users with more meaningful financial statements.

**Management Response:**

Through careful consideration, the City of Port Clinton has determined that filing an annual financial report on a cash accounting basis is a more cost effective methodology and provides a clearer overview of the City's complete financial operations. The City will continue to explore methodologies that will allow the City to report on a generally accepted accounting principles (GAAP) based on financial resource availability.

**Finding Number 2015-002 - Material Weakness**

During 2015, the City erroneously recorded numerous transactions. The more significant adjustments are as follows:

- Recorded FHA Revolving receipt as earning on investment instead of Intergovernmental receipt
- Recorded CHIP Home and CHIP CDBG receipts as Miscellaneous receipts instead of Intergovernmental receipts
- Several funds, such as Income tax, unclaimed monies, city beautification, municipal purposes, special assessment bond were misclassified by fund type
- Homeland security receipts were classified as Miscellaneous receipts instead of Intergovernmental receipts
- OPWC direct vendor payments were not recorded as debt proceeds and capital outlay
- Principal and Interest for various debt were not recorded in the correct line item
- Proceeds of a OWDA loan the corresponding Capital Outlay were not recorded
- \$320,320 in Water and Sewer Fund proceeds (and corresponding capital outlay) were removed from the financial statements due to the amounts having been recorded twice in the City's records.
- On-behalf of intergovernmental revenues and capital outlay disbursements related to an Ohio Department of Transportation (ODOT) grant in the amount of \$113,248 were incorrectly recorded. This activity was reclassified to be properly accounted for in the Street, Construction, Maintenance and Repair, Special Revenue Fund as Intergovernmental revenues and Capital Outlay disbursements.

Adjustments were made in the financial statements and the City's records to reflect the proper presentation.

**CITY OF PORT CLINTON  
OTTAWA COUNTY  
SCHEDULE OF FINDINGS – (continued)  
December 31, 2015**

|  |
|--|
| <b>FINDINGS RELATED TO THE FINANCIAL STATEMENTS<br/>REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS – (continued)</b> |
|--|

**Finding Number 2015-002 - Material Weakness (continued)**

The Auditor of State's website has literature that provides suggested account classifications. This guidance classifies receipts and disbursements by fund and account. Using these classifications and the aforementioned accounting records will provide the City with information required to monitor compliance and with the budget and prepare annual reports in the format required by the Auditor of State.

We recommend that the City refer to the Auditor of State guidance to properly classify its transactions.

**Management Response:**

The City Auditor, in conjunction with the Port Clinton City Council and Port Clinton Administrative Staff, will continue to work in order to ensure the actual and proper classification of any and all financial activity, as it relates to the City of Port Clinton's fiscal operations.

**Finding Number 2015-003 – Material Weakness**

A necessary step in the internal control over financial reporting is to reconcile the bank balances to the accounting record's cash balance each month. Bank reconciliation means accounting for the differences between the bank statement balances and the accounting record's cash and investment balances at a specific point in time.

We noted that the book balance exceeded the bank balance by \$75,720 at year end. This was caused mostly by a transfer that was posted twice and other miscellaneous mispostings that were unidentified in 2015. These items were adjusted by the City to the financial statements and accounting records

Failure to resolve unreconciled differences and continuing to carry old reconciling items on the bank reconciliation could lead to financial statement errors and increases risk of theft and fraud.

The City should reconcile their books on a monthly basis and maintain support for all reconciling items and resolve any differences in a timely manner.

**Management Response:**

The City Treasurer, in conjunction with the Port Clinton City Auditor, will contract with a third party in order to ensure that all reconciliations are completed accurately on a month to month basis.

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS  
December 31, 2015**

| FINDING<br>NUMBER | FUNDING<br>SUMMARY   | FULLY<br>CORRECTED? | Not Corrected. Partially<br>Corrected; Significantly<br>Different Corrective Action<br>Taken; or Finding No<br>Longer Valid; Explain |
|-------------------|--|---------------------|--|
| 2014-001          | Material weakness for the<br>failure to accurately<br>record and classify<br>various transactions and<br>improve monitoring of<br>financial activity | No                  | Repeated as Finding<br>2015-002  |



# Dave Yost • Auditor of State

**CITY OF PORT CLINTON**

**OTTAWA COUNTY**

## **CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
NOVEMBER 17, 2016**