



Dave Yost • Auditor of State



**CITY OF PORT CLINTON  
OTTAWA COUNTY**

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# Dave Yost • Auditor of State

## INDEPENDENT AUDITOR'S REPORT

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

To the Members of City Council:

### ***Report on the Financial Statements***

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

### **Opinion**

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, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 3 to the financial statements, during the year ended December 31, 2012, the City adopted the provisions of Governmental Accounting Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and No. 65, *Items Previously Reported as Assets and Liabilities*. We did not modify our opinion regarding this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Supplementary and Other Information*

Our audit was conducted to opine on the City's basic financial statements taken as a whole.

The Schedule of Federal Award Expenditures presents additional analysis as required by the 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 financial statements.

The schedule is management's responsibility, and derives from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. We subjected this schedule to the auditing procedures we applied to the basic financial statements. We also applied certain additional procedures, including comparing and reconciling this schedule directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves in accordance with auditing standards generally accepted in the United States of America. In our opinion, this schedule is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2013, 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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2013

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City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

The discussion and analysis of the City of Port Clinton's financial performance provides an overview of the City's financial activities for the year ended December 31, 2012. 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 position decreased \$28,023, or almost no change from the prior year. Governmental activities increased less than 1 percent and business-type activities decreased less than 1 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 position 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 position and the statement of activities reflect how the City did financially during 2012. 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 position and changes in net position. This change in net position 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 position and the statement of activities, the City is divided into two types of activities:

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

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

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

**REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

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

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

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

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

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

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

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table 1 provides a summary of the City's net position for 2012 and 2011.

Table 1  
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Assets</u>						
Current and Other Assets	\$5,282,567	\$5,058,476	\$2,691,530	\$3,189,264	\$7,974,097	\$8,247,740
Capital Assets, Net	8,586,417	8,815,148	29,436,924	29,272,600	38,023,341	38,087,748
Total Assets	13,868,984	13,873,624	32,128,454	32,461,864	45,997,438	46,335,488
<u>Liabilities</u>						
Current and Other Liabilities	255,783	251,899	172,883	299,289	428,666	551,188
Long-Term Liabilities	407,572	426,678	14,541,033	14,604,566	14,948,605	15,031,244
Total Liabilities	663,355	678,577	14,713,916	14,903,855	15,377,271	15,582,432
<u>Deferred Inflows of Resources</u>						
	699,539	804,405	0	0	699,539	804,405
<u>Net Position</u>						
Net Investment in Capital Assets	8,316,852	8,546,353	14,977,363	14,781,098	23,294,215	23,327,451
Restricted	2,481,517	2,070,332	0	0	2,481,517	2,070,332
Unrestricted	1,707,721	1,773,957	2,437,175	2,776,911	4,144,896	4,550,868
Total Net Position	\$12,506,090	\$12,390,642	\$17,414,538	\$17,558,009	\$29,920,628	\$29,948,651

The increase in net position for governmental activities was less than 1 percent and, as a result, the above table reflects little change from the prior year. The most significant change was the increase in current and other assets (primarily cash and cash equivalents) and restricted net assets largely due to an increase in CHIP grant monies received in 2012.

Net position for business-type activities also changed very little from the prior year with a decrease in net position of less than 1 percent. The decrease in current and other assets (primarily cash and cash equivalents) was the result of an adjustment to the timing of billing cycles. Fewer outstanding payables at year end led to the decrease in current and other liabilities.

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

Table 2 reflects the change in net position for 2012 and 2011.

Table 2  
Change in Net Position

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
<u>Revenues</u>						
Program Revenues						
Charges for Services	\$451,106	\$482,591	\$4,042,448	\$5,173,800	\$4,493,554	\$5,656,391
Operating Grants, Contributions, and Interest	945,614	516,432	0	15,000	945,614	531,432
Capital Grants, Contributions, and Interest	57,136	461,545	0	3,148,418	57,136	3,609,963
Total Program Revenues	<u>1,453,856</u>	<u>1,460,568</u>	<u>4,042,448</u>	<u>8,337,218</u>	<u>5,496,304</u>	<u>9,797,786</u>
General Revenues						
Property Taxes Levied for General Purposes	562,212	552,383	0	0	562,212	552,383
Property Taxes Levied for Fire Operations	236,296	229,682	0	0	236,296	229,682
Municipal Income Taxes	2,405,536	2,177,113	0	0	2,405,536	2,177,113
Other Local Taxes	179,475	163,860	0	0	179,475	163,860
Payment in Lieu of Taxes	20,161	20,161	0	0	20,161	20,161
Grants and Entitlements not Restricted to Specific Programs	356,695	801,855	0	0	356,695	801,855
Franchise Fees	52,406	50,582	0	0	52,406	50,582
Interest	15,615	25,552	0	0	15,615	25,552
Other	122,304	39,432	16,020	50,660	138,324	90,092
Total General Revenues	<u>3,950,700</u>	<u>4,060,620</u>	<u>16,020</u>	<u>50,660</u>	<u>3,966,720</u>	<u>4,111,280</u>
Total Revenues	<u>5,404,556</u>	<u>5,521,188</u>	<u>4,058,468</u>	<u>8,387,878</u>	<u>9,463,024</u>	<u>13,909,066</u>
<u>Program Expenses</u>						
Security of Persons and Property						
Police	1,822,292	1,812,222	0	0	1,822,292	1,812,222
Fire	335,625	321,198	0	0	335,625	321,198
Public Health	218,346	192,676	0	0	218,346	192,676
Leisure Time Activities	72,772	68,797	0	0	72,772	68,797
Community Environment	262,721	163,495	0	0	262,721	163,495
Transportation	861,095	920,937	0	0	861,095	920,937
General Government	1,701,651	1,405,245	0	0	1,701,651	1,405,245
Interest and Fiscal Charges	14,606	18,653	0	0	14,606	18,653
Water	0	0	1,559,218	1,563,575	1,559,218	1,563,575
Sewer	0	0	2,642,721	2,203,996	2,642,721	2,203,996
Total Expenses	<u>5,289,108</u>	<u>4,903,223</u>	<u>4,201,939</u>	<u>3,767,571</u>	<u>9,491,047</u>	<u>8,670,794</u>
Increase (Decrease) in Net Position	115,448	617,965	(143,471)	4,620,307	(28,023)	5,238,272
Net Position Beginning of Year	<u>12,390,642</u>	<u>11,772,677</u>	<u>17,558,009</u>	<u>12,937,702</u>	<u>29,948,651</u>	<u>24,710,379</u>
Net Position End of Year	<u>\$12,506,090</u>	<u>\$12,390,642</u>	<u>\$17,414,538</u>	<u>\$17,558,009</u>	<u>\$29,920,628</u>	<u>\$29,948,651</u>

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

For governmental activities, there was very little change in overall program revenues; however, the type of revenue changed from the prior year. Operating grants and contributions increased due to an increase in CHIP grant resources and a solar project grant for the Jet Express in 2012 and capital grants and contributions decreased as the City received grants in the prior year for the acquisition of a trailer, forklift, road grader, and vehicle. There was also little change in overall general revenues from the prior year; however, there was an increase in municipal income taxes as a result of continuing improvement in economic conditions. Unfortunately, this was largely offset by a decrease in unrestricted grants and entitlements resulting from the State's reduction in local government funding.

Governmental activities expenses increased almost 8 percent from the prior year with modest increases in most programs. The largest increase was reflected in the general government program and related to improvements for the Jet Express (a solar project and roof replacement).

For business-type activities, program revenues made up over 99 percent of total revenues for 2012. However, note the significant decrease in program revenues from the prior year. Charges for services decreased due to a change in the timing of billing cycles. The decrease in capital grants and contributions reflects the contribution of a sewer line to the City by Ottawa County in the prior year. Expenses were similar to those of the prior year. Overall, expenses increased over 11 percent. This increase was primarily due to depreciation expense in the Sewer Fund.

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

Table 3  
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Security of Persons and Property				
Police	\$1,822,292	\$1,812,222	\$1,728,555	\$1,511,121
Fire	335,625	321,198	197,912	185,279
Public Health	218,346	192,676	179,263	159,940
Leisure Time Activities	72,772	68,797	52,921	37,858
Community Environment	262,721	163,495	(78,845)	5,487
Transportation	861,095	920,937	500,721	334,903
General Government	1,701,651	1,405,245	1,240,119	1,189,415
Interest and Fiscal Charges	14,606	18,653	14,606	18,653
Total Expenses	<u>\$5,289,108</u>	<u>\$4,903,223</u>	<u>\$3,835,252</u>	<u>\$3,442,656</u>

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

With general revenues providing for 73 percent of the City's program costs in 2012 (slightly higher than in 2011), 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 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 only major governmental fund is the General Fund. Fund balance decreased almost 14 percent from the prior year. There was a decrease in revenues, most notably the decrease in intergovernmental revenue as the State reduced local government funding, and the General Fund subsidized activities in other funds to a greater extent in 2012.

#### BUSINESS-TYPE ACTIVITIES FINANCIAL ANALYSIS

The City's enterprise funds are the Water and Sewer funds. Net position decreased 17 percent in the Water Fund and increased 3 percent in the Sewer Fund. As discussed previously, the change in the timing of billing cycles led to a decrease in charges for services in both funds. Expenses in the Water Fund were similar to those of the prior year. Expenses increased in the Sewer Fund with the largest increase related to depreciation expense.

#### BUDGETARY HIGHLIGHTS

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

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

#### CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The City's net investment in capital assets for governmental and business-type activities as of December 31, 2012, was \$8,316,852 and \$14,977,363, respectively (net of accumulated depreciation and related debt). For governmental activities, the primary additions consisted of land and a building on Huron Court, a street sweeper, a loader, three trucks, and a dump truck. For business-type activities, the primary additions were for the completion of the improvements at the wastewater treatment plant, water and sewer line improvements, a street sweeper, and vehicles. For further information regarding the City's capital assets, refer to Note 11 to the basic financial statements.

City of Port Clinton  
Management's Discussion and Analysis  
For the Year Ended December 31, 2012

Debt - At December 31, 2012, the City had \$168,846 in general obligation bonds and \$24,154 in special assessment bonds outstanding related to governmental activities. For business-type activities, there was \$3,270,000 in general obligation bonds, \$175,432 in OPWC loans, and \$10,773,227 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 and 19 to the basic financial statements.

### CURRENT ISSUES

Current issues and events in the City include the following:

- The City has begun the reconstruction of Sixth Street from Harrison Street to Fulton Street. The combined sewer system will also be separated in the area. The Ohio Department of Transportation will provide for 80 percent of the construction cost and the City is seeking funding from the Ohio Public Works Commission for \$175,000. Total estimated cost of the project is \$1.6 million.
- The City is looking for financing to continue the repaving of Fulton Street. The Ohio Public Works Commission has been identified as the potential source of this revenue.
- The City has contracted with Poggemeyer Design Group to conduct a study of the Downtown Streetscape and develop a plan for a revitalization of downtown. In addition, the City is looking to work with Poggemeyer Design Group to apply for a Water Pollution Control loan for the planning, design, and/or construction of the City's wastewater facilities and lines.

### 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 Cole Hatfield, City Auditor, 1868 Perry Street, Port Clinton, Ohio 43452.

City of Port Clinton  
Statement of Net Position  
December 31, 2012

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$2,189,356	\$1,860,657	\$4,050,013
Accounts Receivable	61,873	745,486	807,359
Accrued Interest Receivable	1,574	0	1,574
Due from Other Governments	362,318	0	362,318
Municipal Income Taxes Receivable	808,391	0	808,391
Other Local Taxes Receivable	17,729	0	17,729
Materials and Supplies Inventory	15,453	85,387	100,840
Property Taxes Receivable	750,242	0	750,242
Notes Receivable	873,853	0	873,853
Special Assessments Receivable	181,617	0	181,617
Payment in Lieu of Taxes Receivable	20,161	0	20,161
Nondepreciable Capital Assets	2,169,174	2,184,198	4,353,372
Depreciable Capital Assets, Net	6,417,243	27,252,726	33,669,969
<b>Total Assets</b>	<b>13,868,984</b>	<b>32,128,454</b>	<b>45,997,438</b>
<u>Liabilities</u>			
Accrued Wages Payable	76,276	30,379	106,655
Accounts Payable	35,344	45,316	80,660
Contracts Payable	2,500	2,379	4,879
Retainage Payable	17,212	0	17,212
Due to Other Governments	123,787	34,294	158,081
Accrued Interest Payable	664	10,219	10,883
Deposits Held and Due to Others	0	50,296	50,296
Long-Term Liabilities			
Due Within One Year	101,284	570,445	671,729
Due in More Than One Year	306,288	13,970,588	14,276,876
<b>Total Liabilities</b>	<b>663,355</b>	<b>14,713,916</b>	<b>15,377,271</b>
<u>Deferred Inflows of Resources</u>			
Property Taxes Receivable	679,378	0	679,378
Payment in Lieu of Taxes Receivable	20,161	0	20,161
<b>Total Deferred Inflows of Resources</b>	<b>699,539</b>	<b>0</b>	<b>699,539</b>
<u>Net Position</u>			
Net Investment in Capital Assets	8,316,852	14,977,363	23,294,215
Restricted for			
Debt Service	128,829	0	128,829
Capital Projects	432,332	0	432,332
Security of Persons and Property - Fire	458,231	0	458,231
Community Environment	949,635	0	949,635
Other Purposes	512,490	0	512,490
Unrestricted	1,707,721	2,437,175	4,144,896
<b>Total Net Position</b>	<b>\$12,506,090</b>	<b>\$17,414,538</b>	<b>\$29,920,628</b>

See Accompanying Notes to the Basic Financial Statements



City of Port Clinton  
Statement of Activities  
For the Year Ended December 31, 2012

	Program Revenues			
	Expenses	Charges for Services	Operating Grants, Contributions, and Interest	Capital Grants, Contributions, and Interest
<u>Governmental Activities</u>				
Security of Persons and Property				
Police	\$1,822,292	\$13,164	\$57,905	\$22,668
Fire	335,625	137,478	235	0
Public Health	218,346	39,083	0	0
Leisure Time Activities	72,772	8,266	11,585	0
Community Environment	262,721	0	341,566	0
Transportation	861,095	72,479	276,387	11,508
General Government	1,701,651	180,636	257,936	22,960
Interest and Fiscal Charges	14,606	0	0	0
Total Governmental Activities	<u>5,289,108</u>	<u>451,106</u>	<u>945,614</u>	<u>57,136</u>
<u>Business-Type Activities</u>				
Water	1,559,218	955,386	0	0
Sewer	2,642,721	3,087,062	0	0
Total Business-Type Activities	<u>4,201,939</u>	<u>4,042,448</u>	<u>0</u>	<u>0</u>
Total	<u>\$9,491,047</u>	<u>\$4,493,554</u>	<u>\$945,614</u>	<u>\$57,136</u>

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

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See Accompanying Notes to the Basic Financial Statements

Net (Expense) Revenue  
and Change in Net Position

Governmental Activities	Business-Type Activities	Total
(\$1,728,555)	\$0	(\$1,728,555)
(197,912)	0	(197,912)
(179,263)	0	(179,263)
(52,921)	0	(52,921)
78,845	0	78,845
(500,721)	0	(500,721)
(1,240,119)	0	(1,240,119)
(14,606)	0	(14,606)
<u>(3,835,252)</u>	<u>0</u>	<u>(3,835,252)</u>
0	(603,832)	(603,832)
0	444,341	444,341
<u>0</u>	<u>(159,491)</u>	<u>(159,491)</u>
<u>(3,835,252)</u>	<u>(159,491)</u>	<u>(3,994,743)</u>
562,212	0	562,212
236,296	0	236,296
2,405,536	0	2,405,536
179,475	0	179,475
20,161	0	20,161
356,695	0	356,695
52,406	0	52,406
15,615	0	15,615
122,304	16,020	138,324
<u>3,950,700</u>	<u>16,020</u>	<u>3,966,720</u>
115,448	(143,471)	(28,023)
<u>12,390,642</u>	<u>17,558,009</u>	<u>29,948,651</u>
<u>\$12,506,090</u>	<u>\$17,414,538</u>	<u>\$29,920,628</u>

City of Port Clinton  
Balance Sheet  
Governmental Funds  
December 31, 2012

	General	Other Governmental	Total Governmental Funds
<u>Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$846,240	\$1,323,743	\$2,169,983
Accounts Receivable	61,673	200	61,873
Accrued Interest Receivable	1,214	360	1,574
Due from Other Governments	194,606	167,712	362,318
Municipal Income Taxes Receivable	808,391	0	808,391
Other Local Taxes Receivable	12,838	4,891	17,729
Interfund Receivable	15,042	0	15,042
Materials and Supplies Inventory	9,054	6,399	15,453
<u>Restricted Assets</u>			
Equity in Pooled Cash and Cash Equivalents	19,373	0	19,373
Property Taxes Receivable	520,901	229,341	750,242
Notes Receivable	0	873,853	873,853
Special Assessments Receivable	0	181,617	181,617
Payment in Lieu of Taxes Receivable	0	20,161	20,161
<b>Total Assets</b>	<b>\$2,489,332</b>	<b>\$2,808,277</b>	<b>\$5,297,609</b>
<u>Liabilities</u>			
Accrued Wages Payable	\$67,575	\$8,701	76,276
Accounts Payable	15,312	20,032	35,344
Contracts Payable	0	2,500	2,500
Retainage Payable	0	17,212	17,212
Due to Other Governments	99,108	24,679	123,787
Interfund Payable	0	15,042	15,042
<b>Total Liabilities</b>	<b>181,995</b>	<b>88,166</b>	<b>270,161</b>
<u>Deferred Inflows of Resources</u>			
Property Taxes Receivable	472,109	207,269	679,378
Payment in Lieu of Taxes Receivable	0	20,161	20,161
Unavailable Revenue	730,713	338,350	1,069,063
<b>Total Deferred Inflows of Resources</b>	<b>1,202,822</b>	<b>565,780</b>	<b>1,768,602</b>
<u>Fund Balance</u>			
Nonspendable	38,733	6,399	45,132
Restricted	0	2,147,453	2,147,453
Assigned	36,346	5,179	41,525
Unassigned (Deficit)	1,029,436	(4,700)	1,024,736
<b>Total Fund Balance</b>	<b>1,104,515</b>	<b>2,154,331</b>	<b>3,258,846</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$2,489,332</b>	<b>\$2,808,277</b>	<b>\$5,297,609</b>

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton  
 Reconciliation of Total Governmental Fund Balance  
 to Net Position of Governmental Activities  
 December 31, 2012

Total Governmental Fund Balance \$3,258,846

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 8,586,417

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

Accounts Receivable	61,185	
Accrued Interest Receivable	1,436	
Due from Other Governments	294,064	
Municipal Income Taxes Receivable	459,247	
Other Local Taxes Receivable	650	
Delinquent Property Taxes Receivable	70,864	
Special Assessments Receivable	181,617	
		1,069,063

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

Accrued Interest Payable	(664)	
General Obligations Bonds Payable	(168,846)	
Special Assessment Bonds Payable	(24,154)	
Capital Leases Payable	(100,719)	
Compensated Absences Payable	(113,853)	
		(408,236)

Net Position of Governmental Activities \$12,506,090

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, 2012

	General	Other Governmental	Total Governmental Funds
<u>Revenues</u>			
Property Taxes	\$545,617	\$228,689	\$774,306
Municipal Income Taxes	2,296,965	0	2,296,965
Other Local Taxes	179,259	72,479	251,738
Payment in Lieu of Taxes	0	20,161	20,161
Special Assessments	0	24,713	24,713
Charges for Services	230,703	137,728	368,431
Fees, Licenses, and Permits	3,950	0	3,950
Fines and Forfeitures	3,335	1,886	5,221
Intergovernmental	444,612	922,315	1,366,927
Interest	8,718	10,936	19,654
Other	48,634	92,990	141,624
<b>Total Revenues</b>	<b>3,761,793</b>	<b>1,511,897</b>	<b>5,273,690</b>
<u>Expenditures</u>			
Current:			
Security of Persons and Property			
Police	1,732,331	28,589	1,760,920
Fire	0	295,599	295,599
Public Health	214,574	0	214,574
Leisure Time Activities	58,738	0	58,738
Community Environment	9,316	253,405	262,721
Transportation	0	503,835	503,835
General Government	1,364,181	320,882	1,685,063
Capital Outlay	0	227,992	227,992
Debt Service:			
Principal Retirement	4,423	93,884	98,307
Interest and Fiscal Charges	908	13,791	14,699
<b>Total Expenditures</b>	<b>3,384,471</b>	<b>1,737,977</b>	<b>5,122,448</b>
Excess of Revenues Over (Under) Expenditures	377,322	(226,080)	151,242
<u>Other Financing Sources (Uses)</u>			
Inception of Capital Lease	0	88,500	88,500
Transfers In	0	555,000	555,000
Transfers Out	(555,000)	0	(555,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(555,000)</b>	<b>643,500</b>	<b>88,500</b>
Change in Fund Balance	(177,678)	417,420	239,742
Fund Balance Beginning of Year	1,282,193	1,736,911	3,019,104
Fund Balance End of Year	\$1,104,515	\$2,154,331	\$3,258,846

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, 2012

Change in Fund Balance - Total Governmental Funds \$239,742

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

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

Capital Outlay- Nondepreciable Capital Assets	62,091	
Capital Outlay- Depreciable Capital Assets	163,720	
Capital Contributions	45,628	
Depreciation	<u>(500,170)</u>	(228,731)

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

Delinquent Property Taxes	24,202	
Municipal Income Taxes	108,571	
Other Local Taxes	216	
Special Assessments	(24,713)	
Charges for Services	1,025	
Fees, Licenses, and Permits	52,406	
Intergovernmental	(74,292)	
Interest	<u>(2,177)</u>	85,238

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

General Obligation Bonds Payable	9,423	
Special Assessment Bonds Payable	10,577	
Capital Leases Payable	<u>78,307</u>	98,307

The inception of a capital lease is reported as an other financing source in governmental funds but increases long-term liabilities on the statement of net position. (88,500)

Interest is reported as an expenditure when due in the governmental funds but is accrued on outstanding debt on the statement of net position. 93

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. 9,299

Change in Net Position of Governmental Activities \$115,448

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, 2012

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Over (Under)
	<u>Original</u>	<u>Final</u>		<u>(Under)</u>
<u>Revenues</u>				
Property Taxes	\$527,900	\$551,550	\$545,617	(\$5,933)
Municipal Income Taxes	2,200,000	2,200,000	2,295,533	95,533
Other Local Taxes	164,378	163,000	169,348	6,348
Charges for Services	255,218	253,348	231,003	(22,345)
Fees, Licenses, and Permits	56,249	56,202	54,532	(1,670)
Fines and Forfeitures	10,525	10,500	3,324	(7,176)
Intergovernmental	542,950	538,400	531,045	(7,355)
Interest	18,152	18,000	7,836	(10,164)
Other	51,242	50,600	49,082	(1,518)
<b>Total Revenues</b>	<b>3,826,614</b>	<b>3,841,600</b>	<b>3,887,320</b>	<b>45,720</b>
<u>Expenditures</u>				
Current:				
Security of Persons and Property				
Police	1,995,200	1,995,402	1,753,450	241,952
Public Health	241,200	243,930	209,585	34,345
Leisure Time Activities	88,900	88,900	58,535	30,365
Community Environment	15,565	15,565	9,316	6,249
General Government	1,585,124	1,603,776	1,394,377	209,399
Debt Service:				
Principal Retirement	4,423	4,423	4,423	0
Interest and Fiscal Charges	908	908	908	0
<b>Total Expenditures</b>	<b>3,931,320</b>	<b>3,952,904</b>	<b>3,430,594</b>	<b>522,310</b>
Excess of Revenues Over (Under) Expenditures	(104,706)	(111,304)	456,726	568,030
<u>Other Financing Sources (Uses)</u>				
Advances In	0	0	4,479	4,479
Transfers Out	(540,015)	(555,000)	(555,000)	0
<b>Total Other Financing Sources (Uses)</b>	<b>(540,015)</b>	<b>(555,000)</b>	<b>(550,521)</b>	<b>4,479</b>
Change in Fund Balance	(644,721)	(666,304)	(93,795)	572,509
Fund Balance Beginning of Year	898,207	898,207	898,207	0
Prior Year Encumbrances Appropriated	21,584	21,584	21,584	0
<b>Fund Balance End of Year</b>	<b>\$275,070</b>	<b>\$253,487</b>	<b>\$825,996</b>	<b>\$572,509</b>

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton  
Statement of Fund Net Position  
Enterprise Funds  
December 31, 2012

	<u>Business-Type Activities</u>		Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	
<u>Assets</u>			
<u>Current Assets</u>			
Equity in Pooled Cash and Cash Equivalents	\$715,700	\$1,094,661	\$1,810,361
Accounts Receivable	257,882	487,604	745,486
Materials and Supplies Inventory	61,915	23,472	85,387
Total Current Assets	<u>1,035,497</u>	<u>1,605,737</u>	<u>2,641,234</u>
<u>Non-Current Assets</u>			
<u>Restricted Assets</u>			
Equity in Pooled Cash and Cash Equivalents	50,296	0	50,296
Nondepreciable Capital Assets	34,126	2,150,072	2,184,198
Depreciable Capital Assets, Net	3,116,048	24,136,678	27,252,726
Total Non-Current Assets	<u>3,200,470</u>	<u>26,286,750</u>	<u>29,487,220</u>
Total Assets	<u>4,235,967</u>	<u>27,892,487</u>	<u>32,128,454</u>
<u>Liabilities</u>			
<u>Current Liabilities</u>			
Accrued Wages Payable	12,056	18,323	30,379
Accounts Payable	1,568	43,748	45,316
Contracts Payable	5	2,374	2,379
Due to Other Governments	12,132	22,162	34,294
Accrued Interest Payable	0	10,219	10,219
General Obligation Bonds Payable	0	155,000	155,000
OPWC Loans Payable	1,514	13,045	14,559
OWDA Loans Payable	85,247	238,688	323,935
Capital Leases Payable	0	59,252	59,252
Compensated Absences Payable	3,785	13,914	17,699
Total Current Liabilities	<u>116,307</u>	<u>576,725</u>	<u>693,032</u>
<u>Non-Current Liabilities</u>			
Deposits Held and Due to Others	50,296	0	50,296
General Obligation Bonds Payable	0	3,115,000	3,115,000
OPWC Loans Payable	16,760	144,113	160,873
OWDA Loans Payable	1,063,215	9,386,077	10,449,292
Capital Leases Payable	0	181,650	181,650
Compensated Absences Payable	36,094	27,679	63,773
Total Non-Current Liabilities	<u>1,166,365</u>	<u>12,854,519</u>	<u>14,020,884</u>
Total Liabilities	<u>1,282,672</u>	<u>13,431,244</u>	<u>14,713,916</u>
<u>Net Position</u>			
Net Investment in Capital Assets	1,983,438	12,993,925	14,977,363
Unrestricted	969,857	1,467,318	2,437,175
Total Net Position	<u>\$2,953,295</u>	<u>\$14,461,243</u>	<u>\$17,414,538</u>

See Accompanying Notes to the Basic Financial Statements



City of Port Clinton  
Statement of Revenues, Expenses,  
and Change in Fund Net Position  
Enterprise Funds  
For the Year Ended December 31, 2012

	<u>Business-Type Activities</u>		Total Enterprise Funds
	<u>Water</u>	<u>Sewer</u>	
<u>Operating Revenues</u>			
Charges for Services	\$955,386	\$3,087,062	\$4,042,448
Other	2,073	13,947	16,020
Total Operating Revenues	<u>957,459</u>	<u>3,101,009</u>	<u>4,058,468</u>
<u>Operating Expenses</u>			
Personal Services	454,002	769,024	1,223,026
Contractual Services	6,323	265,095	271,418
Materials and Supplies	890,626	566,116	1,456,742
Bad Debt	2,932	0	2,932
Other	68,000	105,000	173,000
Depreciation	87,017	593,270	680,287
Total Operating Expenses	<u>1,508,900</u>	<u>2,298,505</u>	<u>3,807,405</u>
Operating Income (Loss)	(551,441)	802,504	251,063
<u>Non-Operating Expenses</u>			
Interest Expense	<u>(50,318)</u>	<u>(344,216)</u>	<u>(394,534)</u>
Change in Net Position	(601,759)	458,288	(143,471)
Net Position Beginning of Year	<u>3,555,054</u>	<u>14,002,955</u>	<u>17,558,009</u>
Net Position End of Year	<u>\$2,953,295</u>	<u>\$14,461,243</u>	<u>\$17,414,538</u>

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton  
Statement of Cash Flows  
Enterprise Funds  
For the Year Ended December 31, 2012

	Business-Type Activities		
	Water	Sewer	Total Enterprise Funds
<b>Increases (Decreases) in Cash and Cash Equivalents</b>			
<u>Cash Flows from Operating Activities</u>			
Cash Received from Customers	\$1,761,940	\$2,915,719	\$4,677,659
Cash Received from Other Revenues	2,073	13,106	15,179
Cash Payments for Personal Services	(453,702)	(799,680)	(1,253,382)
Cash Payments for Contractual Services	(27,660)	(249,645)	(277,305)
Cash Payments to Vendors	(999,092)	(613,333)	(1,612,425)
Cash Payments for Other Expenses	(68,000)	(105,000)	(173,000)
<b>Net Cash Provided by Operating Activities</b>	<u>215,559</u>	<u>1,161,167</u>	<u>1,376,726</u>
<u>Cash Flows from Capital and Related Financing Activities</u>			
Principal Paid on General Obligation Bonds	0	(150,000)	(150,000)
Principal Paid on OPWC Loans	(1,515)	(14,446)	(15,961)
Principal Paid on OWDA Loans	(97,634)	(506,064)	(603,698)
Lease Principal	0	(58,986)	(58,986)
Interest Paid on General Obligation Bonds	0	(141,061)	(141,061)
Interest Paid on OWDA Loans	(50,318)	(193,548)	(243,866)
Lease Interest	0	(10,076)	(10,076)
OWDA Loans Issued	31,223	676,981	708,204
Acquisition of Capital Assets	(68,852)	(687,254)	(756,106)
<b>Net Cash Used for Capital and Related Financing Activities</b>	<u>(187,096)</u>	<u>(1,084,454)</u>	<u>(1,271,550)</u>
<b>Net Increase in Cash and Cash Equivalents</b>	28,463	76,713	105,176
Cash and Cash Equivalents Beginning of Year	737,533	1,017,948	1,755,481
<b>Cash and Cash Equivalents End of Year</b>	<u>\$765,996</u>	<u>\$1,094,661</u>	<u>\$1,860,657</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</u>			
Operating Income (Loss)	(\$551,441)	\$802,504	\$251,063
<u>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities</u>			
Depreciation	87,017	593,270	680,287
Provision for Uncollectible Accounts	2,932	(20,608)	(17,676)
Changes in Assets and Liabilities:			
(Increase) Decrease in Accounts Receivable	806,554	(151,576)	654,978
(Increase) Decrease in Materials and Supplies Inventory	(41,025)	6,633	(34,392)
Increase in Accrued Wages Payable	4,621	736	5,357
Increase (Decrease) in Accounts Payable	(4,041)	27,668	23,627
Decrease in Contracts Payable	(6,300)	(61,299)	(67,599)
Decrease in Due to Other Governments	(59,365)	(8,805)	(68,170)
Decrease in Compensated Absences Payable	(4,236)	(27,356)	(31,592)
Decrease in Deposits Held and Due to Others	(19,157)	0	(19,157)
<b>Net Cash Provided by Operating Activities</b>	<u>\$215,559</u>	<u>\$1,161,167</u>	<u>\$1,376,726</u>

Non-Cash Capital Transaction

During 2012, the Sewer enterprise fund entered into a new lease for equipment, in the amount of \$88,500.

See Accompanying Notes to the Basic Financial Statements

City of Port Clinton  
Statement of Fiduciary Assets and Liabilities  
Agency Funds  
December 31, 2012

Assets

Equity in Pooled Cash and Cash Equivalents	<u><u>\$24,823</u></u>
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Liabilities

Undistributed Assets	<u><u>\$24,823</u></u>
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See Accompanying Notes to the Basic Financial Statements

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**

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**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 2012.

The City participates in an insurance pool, the Ohio Plan Risk Management, Inc., which is 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, 2012**  
**(continued)**

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

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

**Fund Financial Statements**

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**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 and deferred inflows of resources is reported as fund balance. The General Fund is the City's only major fund.

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

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

**Proprietary Funds**

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

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

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

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

**Fiduciary Funds**

Fiduciary fund reporting focuses on net position and changes in net position. 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 2012. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for employee payroll withholdings and deductions and for insurance proceeds held by the City to secure proper handling of fire damaged structures until adequately repaired or demolished.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

C. Measurement Focus

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange Transactions

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. The City did not report any deferred outflows of resources for 2012.

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources includes property taxes, payment in lieu of taxes, and unavailable revenue. Property taxes represent amounts for which there was an enforceable legal claim as of December 31, 2012, but which were levied to finance 2013 operations. Payment in lieu of taxes represents a contractual promise to make payment of property taxes which reflect all or a portion of the taxes which would have been paid if the taxes had not been exempted. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund financial statements. Unavailable revenue is reported only on the governmental fund balance sheet and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes accrued interest, intergovernmental revenue including grants, municipal income taxes, other local taxes, delinquent property taxes, special assessments, and other sources. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

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, 2012**  
**(continued)**

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

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

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

F. Cash and Investments

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

During 2012, the City's investments included nonnegotiable certificates of deposit, federal agency securities, and mutual funds. Nonnegotiable certificates of deposit are reported at cost. Investments are reported at fair value, which is based on current share price or quoted market price.

Interest earnings are allocated to City funds according to State statutes or grant requirements. Interest revenue credited to the General Fund during 2012 was \$8,718, which includes \$6,837 assigned from other City funds.

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

G. Inventory

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

H. Restricted Assets

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

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

I. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column on the government-wide statement of net position 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 position and in the respective funds.

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

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

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

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**J. Interfund Assets/Liabilities**

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

**K. Compensated Absences**

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

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

**L. Accrued Liabilities and Long-Term Obligations**

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

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

**M. Net Position**

Net position represents the difference between all other elements in the statement of financial position. Net investment in capital assets 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 position is reported as restricted when there are limitations imposed on its 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 position restricted for other purposes generally consists of various police department grants and programs. The City’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

N. Fund Balance

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

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

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

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

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

Assigned - Amounts in the assigned classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. Assigned amounts represent intended uses established by City Council. City Council has authorized the Safety Service Director to assign fund balance for purchases on order provided such amounts have been lawfully appropriated.

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

O. Operating Revenues and Expenses

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

P. Capital Contributions

Capital contributions arise from contributions from other governments and outside sources.

Q. Interfund Transactions

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

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

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

R. Estimates

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES**

For 2012, the City has implemented Governmental Accounting Standards Board (GASB) Statement No. 60, "Accounting and Financial Reporting for Service Concession Arrangements", Statement No. 62, "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements", Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position", Statement No. 64, "Derivative Instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53", Statement No. 65, "Items Previously Reported as Assets and Liabilities", and Statement No. 66, "Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62".

GASB Statement No. 60 improves financial reporting by addressing issues related to service concession arrangements which are a type of public-public or public-private partnership. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 62 incorporates into GASB's authoritative literature certain FASB and AICPA pronouncements issued on or before November 30, 1989. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related note disclosures. These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The implementation of this statement did not result in any change to the City's financial statements.

GASB Statement No. 65 properly classifies certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources or recognizes certain items that were previously reported as assets or liabilities as inflows of resources (revenues) or outflows of resources (expenses or expenditures). These changes were incorporated in the City's 2012 financial statements; however, there was no effect on beginning net position and/or fund balance.

GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and, thereby, enhance the usefulness of the financial reports. The implementation of this statement did not result in any change to the City's financial statements.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 4 - ACCOUNTABILITY AND COMPLIANCE**

**A. Accountability**

At December 31, 2012, the Jet Express special revenue fund had a deficit fund balance, in the amount of \$4,700, resulting 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 Sewer Enterprise fund had expenditures in excess of appropriations in the principal account, in the amount of \$4,361, for the year ended December 31, 2012. The Auditor will monitor expenditures to ensure they are within amounts appropriated.

**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 restricted, committed, or assigned fund balance (GAAP basis).

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 5 - BUDGETARY BASIS OF ACCOUNTING** (continued)

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

Change in Fund Balance	
GAAP Basis	(\$177,678)
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 2011, Received in Cash 2012	527,202
Accrued 2012, Not Yet Received in Cash	(396,827)
Expenditure Accruals:	
Accrued 2011, Paid in Cash 2012	(191,310)
Accrued 2012, Not Yet Paid in Cash	182,021
Cash Adjustments:	
Unrecorded Activity 2011	(1,853)
Unrecorded Activity 2012	(2,995)
Materials and Supplies Inventory	(212)
Advances In	4,479
Encumbrances Outstanding at Year End (Budget Basis)	(36,622)
Budget Basis	(\$93,795)

**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.



**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

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;
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.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 6 - DEPOSITS AND INVESTMENTS** (continued)

Investments

As of December 31, 2012, the City had the following investments:

	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Bank Notes	\$100,206	3/27/13
Mutual Funds	632,558	55 days
Total Investments	<u>\$732,764</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 and that all investments must mature within five years from the date of investment unless they are matched to a specific obligation or debt of the City.

The federal agency security carries a rating of Aaa by Moodys and the mutual funds are not rated. The City has no investment policy dealing with credit risk beyond the requirements of State statute. Ohio law requires mutual funds be rated in the highest category at the time of purchase by at least one nationally recognized standard rating service.

The City's investment policy limits the investment of its interim monies as follows; may invest 100 percent of its interim monies in U.S. Treasury and/or federal agency securities or STAR Ohio, 75 percent in certificates of deposit, 25 percent in commercial paper, or 20 percent in repurchase agreements. The City's investment in Federal Home Loan Bank notes represents 13.7 percent of the City's investment portfolio.

**NOTE 7 - RECEIVABLES**

Receivables at December 31, 2012, consisted of accounts (billings for user charged services, including unbilled utility services); accrued interest; intergovernmental receivables arising from grants, entitlements, and shared revenues; municipal income taxes; other local taxes; interfund; property taxes; notes; special assessments; and payment in lieu of taxes. All receivables are expected to be collected within one year, except as noted. Municipal income taxes and property taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year. Notes receivable, in the amount of \$861,308, will not be received within one year. Special assessments receivable, in the amount of \$162,270, will not be received within one year. At December 31, 2012, the amount of delinquent special assessments was \$109,579.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 7 - RECEIVABLES** (continued)

A summary of the changes in notes receivable during 2012 follows:

	Balance December 31, 2011	New Loans	Repayments	Balance December 31, 2012
Special Revenue Fund				
CDBG	\$9,410	\$0	\$0	\$9,410
HPG	227,435	0	0	227,435
HOME	512,944	134,225	10,161	637,008
	<u>\$749,789</u>	<u>\$134,225</u>	<u>\$10,161</u>	<u>\$873,853</u>

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

	Water	Sewer	Total Enterprise Funds
Accounts Receivable	\$275,339	\$492,818	\$768,157
Less Allowance for Uncollectibles	<u>17,457</u>	<u>5,214</u>	<u>22,671</u>
Net Accounts Receivable	<u>\$257,882</u>	<u>\$487,604</u>	<u>\$745,486</u>

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Major Fund	
General Fund	
Homestead and Rollback	\$31,732
Estate Tax	24,893
Local Government	127,197
Beer and Liquor Permits	10,784
Total General Fund	<u>194,606</u>

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 7 - RECEIVABLES** (continued)

	Amount
Nonmajor Funds	
Fire Levy	
Homestead and Rollback	\$14,355
State Highway	
Gasoline Tax	8,054
Motor Vehicle License Tax	2,498
Total State Highway	10,552
Street Maintenance	
Gasoline Tax	99,145
Motor Vehicle License Tax	30,800
Port Clinton City School District	2,860
Total Street Maintenance	132,805
Municipal Purposes	
Port Clinton City School District	10,000
Total Nonmajor Funds	167,712
Total Governmental Activities	\$362,318

**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.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 9 - PROPERTY TAXES**

Property taxes include amounts levied against all real and public utility property located in the City. Real property tax revenues received in 2012 represent the collection of 2011 taxes. Real property taxes received in 2012 were levied after October 1, 2011, on the assessed values as of January 1, 2011, the lien date. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits alternate payment dates to be established.

Public utility property tax revenues received in 2012 represent the collection of 2011 taxes. Public utility real and tangible personal property taxes received in 2012 became a lien on December 31, 2010, were levied after October 1, 2011, 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.

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 and public utility property taxes which were measurable as of December 31, 2012, and for which there was an enforceable legal claim. In the governmental funds, the portion of the receivable not levied to finance 2012 operations is offset to deferred inflows of resources - property taxes. On the accrual basis, delinquent real property taxes have been recorded as a receivable and revenue while on the modified accrual basis, the revenue has been reported as deferred inflows of resources - unavailable revenue.

The full tax rate for all City operations for the year ended December 31, 2012, was \$6.10 per \$1,000 of assessed value. The assessed values of real and public utility property upon which 2012 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Agricultural/Residential	\$105,511,450
Commercial/Industrial	32,895,190
Public Utility Real	30,240
Public Utility Personal	6,704,050
Total	\$145,140,930

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(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 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, 2012, was as follows:

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Governmental Activities:				
Nondepreciable Capital Assets				
Land	\$1,997,500	\$5,720	\$0	\$2,003,220
Construction in Progress	417,369	56,371	(307,786)	165,954
Total Nondepreciable Capital Assets	<u>2,414,869</u>	<u>62,091</u>	<u>(307,786)</u>	<u>2,169,174</u>
Depreciable Capital Assets				
Land Improvements	232,038	0	0	232,038
Buildings and Improvements	1,901,676	17,240	0	1,918,916
Furniture, Fixtures, and Equipment	1,167,978	136,158	0	1,304,136
Vehicles	2,131,232	55,950	0	2,187,182
Streets	9,829,328	307,786	0	10,137,114
Total Depreciable Capital Assets	<u>15,262,252</u>	<u>517,134</u>	<u>0</u>	<u>15,779,386</u>
Less Accumulated Depreciation for				
Land Improvements	(70,987)	(11,602)	0	(82,589)
Buildings and Improvements	(561,913)	(42,812)	0	(604,725)
Furniture, Fixtures, and Equipment	(730,780)	(63,621)	0	(794,401)
Vehicles	(1,396,822)	(112,578)	0	(1,509,400)
Streets	(6,101,471)	(269,557)	0	(6,371,028)
Total Accumulated Depreciation	<u>(8,861,973)</u>	<u>(500,170)</u>	<u>0</u>	<u>(9,362,143)</u>
Total Depreciable Capital Assets, Net	<u>6,400,279</u>	<u>16,964</u>	<u>0</u>	<u>6,417,243</u>
Governmental Activities Capital Assets, Net	<u>\$8,815,148</u>	<u>\$79,055</u>	<u>(\$307,786)</u>	<u>\$8,586,417</u>

Governmental activities accepted contributions of capital assets from other governments and outside sources, with a fair value of \$45,628 during 2012.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

**NOTE 11 - CAPITAL ASSETS** (continued)

	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012
Business-Type Activities:				
Nondepreciable Capital Assets				
Land	\$12,552	\$0	\$0	\$12,552
Construction in Progress	9,117,131	661,922	(7,607,407)	2,171,646
Total Nondepreciable Capital Assets	<u>9,129,683</u>	<u>661,922</u>	<u>(7,607,407)</u>	<u>2,184,198</u>
Depreciable Capital Assets				
Land Improvements	13,965	14,960	0	28,925
Buildings and Improvements	11,591,818	7,282,011	0	18,873,829
Furniture, Fixtures, and Equipment	746,997	134,500	0	881,497
Vehicles	470,917	33,229	(47,025)	457,121
Water, Sewer, and Storm Sewer Lines	11,767,773	325,396	0	12,093,169
Total Depreciable Capital Assets	<u>24,591,470</u>	<u>7,790,096</u>	<u>(47,025)</u>	<u>32,334,541</u>
Less Accumulated Depreciation for				
Land Improvements	(8,029)	(1,446)	0	(9,475)
Buildings and Improvements	(3,019,986)	(353,313)	0	(3,373,299)
Furniture, Fixtures, and Equipment	(371,227)	(60,118)	0	(431,345)
Vehicles	(208,978)	(30,052)	47,025	(192,005)
Water, Sewer, and Storm Sewer Lines	(840,333)	(235,358)	0	(1,075,691)
Total Accumulated Depreciation	<u>(4,448,553)</u>	<u>(680,287)</u>	<u>47,025</u>	<u>(5,081,815)</u>
Total Depreciable Capital Assets, Net	<u>20,142,917</u>	<u>7,109,809</u>	<u>0</u>	<u>27,252,726</u>
Business-Type Activities Capital Assets, Net	<u>\$29,272,600</u>	<u>\$7,771,731</u>	<u>(\$7,607,407)</u>	<u>\$29,436,924</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities	
Security of Persons and Property - Police	\$89,418
Security of Persons and Property - Fire	59,141
Public Health	3,937
Leisure Time Activities	14,034
Transportation	320,324
General Government	13,316
Total Depreciation Expense - Governmental Activities	<u>\$500,170</u>

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 12 - INTERFUND RECEIVABLES/PAYABLES**

At December 31, 2012, the General Fund had an interfund receivable, in the amount of \$15,042, from other governmental funds for short-term loans made to those funds. Of this amount, \$10,306 is not scheduled to be collected within one year.

**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 2012, the City contracted with the Ohio Plan Risk Management, Inc., an insurance purchasing pool, for the following coverage:

Type of Coverage	Coverage	Deductible
Blanket Building and Personal Property	\$21,370,897	\$1,000
Special Property	2,070,117	1,000
General Liability		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Employer's Liability		
Occurrence	2,000,000	0
Aggregate	2,000,000	0
Employee Benefits		
Occurrence	2,000,000	0
Aggregate	4,000,000	0
Public Officials Liability		
Occurrence	2,000,000	2,500
Aggregate	4,000,000	2,500
Law Enforcement Liability		
Occurrence	2,000,000	2,500
Aggregate	4,000,000	2,500
Auto Liability	2,000,000	250/500
Builders Risk	500,000	0

There has been no significant reduction in insurance coverage from 2011, and no insurance settlement has exceeded insurance coverage during the last three years.

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



**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 14 - CONTRACTUAL COMMITMENTS**

At December 31, 2012, the City had contractual commitments as follows:

Company	Project	Amount Remaining on Contract
B.E.C Associates	Eleventh Street Engineering	\$18,200
Criminal Justice Coordinating	Norris Service Agreement	12,900
Cummins Bridgeway	Generator Services	538
Design Engineers and Consulting	Jet Express Solar Project	2,750
DGL Consulting Engineers	Safe Routes to School Engineering	38,235
Erie Blacktop	Pavement Repair and Resurfacing	350,652
Fire Safety Services	Upgrade Engine No. 661	48,500
Floyd Browne Group	Annual Professional Services	10,751
Gardner Denver	Repair Work	5,536
Mannik & Smith Group	Sixth Street Easements Appraisal	4,304
Spengler Nathanson Attorney	Legal Fees	2,199
Valley Electric Company	Walnut/Oak Pump Station Upgrades	142,187
Wadsworth Excavating	Eleventh Street Sewer Crossovers	6,912

**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. Under the combined plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the traditional plan benefit. Member contributions, the investment of which is self-directed by the member, accumulate retirement assets in a manner similar to the member-directed plan.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 15 - DEFINED BENEFIT PENSION PLANS** (continued)

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 visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

Funding Policy - The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll. For the year ended December 31, 2012, members in state and local classifications contributed 10 percent of covered payroll. For 2012, member and employer contribution rates were consistent across all three plans.

The City's 2012 contribution rate was 14 percent. The portion of the City's contribution used to fund pension benefits is net of postemployment health care benefits. The portion of the City's contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 percent for 2012. Employer contribution rates are actuarially determined.

The City's required contribution for pension obligations to the traditional and combined plans for the years ended December 31, 2012, 2011, and 2010 was \$183,851, \$223,310, and \$175,878, respectively. For 2012, 87 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010. Contributions to the member-directed plan for 2012 were \$3,374 made by the City and \$2,410 made by the plan members.

**B. Ohio Police and Fire Pension Fund**

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

Funding Policy - The Ohio Revised Code requires plan members to contribute 10 percent of their annual covered salary while employers are required to contribute 19.5 percent for police officers. The OPF pension fund is authorized by the Ohio Revised Code to allocate a portion of the employer contribution to retiree health care benefits. For 2012, the portion of the City's contribution used to fund pension benefits was 12.75 percent of covered payroll for police officers. The City's required contribution for pension obligations for police for the year ended December 31, 2012, was \$89,086, for the year ended December 31, 2011, was \$92,491, and for the year ended December 31, 2010, was \$97,375. For 2012, 68 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 16 - POSTEMPLOYMENT BENEFITS**

**A. Ohio Public Employees Retirement System**

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

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

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

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 222-5601 or 800-222-7377.

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

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2012, state and local employers contributed 14 percent of covered payroll. This is the maximum employer contribution rate permitted by the Ohio Revised Code.

Each year, the OPERS retirement board determines the portion of the employer contribution rate that will be set aside for funding postemployment health care benefits. The portion of the employer contribution allocated to health care for members in the traditional plan was 4 percent for 2012. The portion of the employer contribution allocated to health care for members in the combined plan was 6.05 for 2012. Effective January 1, 2013, the portion of the employer contribution allocated to health care was lowered to 1 percent for both plans as recommended by the OPERS actuary.

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 16 - POSTEMPLOYMENT BENEFITS** (continued)

The City's contribution allocated to fund postemployment health care benefits for the years ended December 31, 2012, 2011, and 2010 was \$74,890, \$90,903, and \$109,695, respectively. For 2012, 87 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 9, 2012, with a transition plan commencing on January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contribution toward the health care fund after the end of the transition period.

**B. Police and Fire Pension Fund**

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

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

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

OPF issues a publicly available financial report that includes financial information and required supplementary information for the plan. The report may be obtained by visiting the OPF website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 16 - POSTEMPLOYMENT BENEFITS** (continued)

The Board of Trustees is authorized to allocate a portion of the total employer contribution made to the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For the year ended December 31, 2012, the employer contribution allocated to the health care plan was 6.75 percent of covered payroll. The amount of employer contribution allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

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

The City's contribution to OPF which was allocated to fund postemployment health care benefits for police for the year ended December 31, 2012, was \$47,163, for the year ended December 31, 2011, was \$48,966, and for the year ended December 31, 2010, was \$51,551. For 2011, 68 percent has been contributed for police with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2011 and 2010.

**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.

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 18 - LONG-TERM OBLIGATIONS**

The City's long-term obligations activity for the year ended December 31, 2012, was as follows:

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Governmental Activities</u>						
<u>General Obligation Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$84,260)	6.22%	\$13,269	\$0	\$4,423	\$8,846	\$4,423
2008 Various Purpose (Original Amount \$3,990,000)	3.750	165,000	0	5,000	160,000	5,000
<b>Total General Obligation Bonds</b>		<b>178,269</b>	<b>0</b>	<b>9,423</b>	<b>168,846</b>	<b>9,423</b>
<u>Special Assessment Bonds</u>						
1994 West Second and Laurel Street (Original Amount \$143,470)	6.22	22,731	0	7,577	15,154	7,577
1995 Fulton Street (Original Amount \$48,530)	6.5	12,000	0	3,000	9,000	3,000
<b>Total Special Assessment Bonds</b>		<b>34,731</b>	<b>0</b>	<b>10,577</b>	<b>24,154</b>	<b>10,577</b>
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		90,526	88,500	78,307	100,719	47,643
Compensated Absences Payable		123,152	18,794	28,093	113,853	33,641
<b>Total Other Long-Term Obligations</b>		<b>213,678</b>	<b>107,294</b>	<b>106,400</b>	<b>214,572</b>	<b>81,284</b>
<b>Total Governmental Activities</b>		<b>\$426,678</b>	<b>\$107,294</b>	<b>\$126,400</b>	<b>\$407,572</b>	<b>\$101,284</b>
	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Business-Type Activities</u>						
<u>General Obligation Bonds</u>						
2008 General Obligation Bonds (Original Amount \$3,990,000)	3.75%	\$3,420,000	\$0	\$150,000	\$3,270,000	\$155,000
<u>OPWC Loans</u>						
2002 OPWC Loans Payable (Original Amount \$28,000)	0	14,700	0	1,400	13,300	1,400
2004 OPWC Loans Payable (Original Amount \$208,350)	0	130,219	0	10,418	119,801	10,417
2004 OPWC Loans Payable (Original Amount \$40,934)	0	46,474	0	4,143	42,331	2,742
<b>Total OPWC Loans</b>		<b>191,393</b>	<b>0</b>	<b>15,961</b>	<b>175,432</b>	<b>14,559</b>

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

	Interest Rate	Balance December 31, 2011	Additions	Reductions	Balance December 31, 2012	Due Within One Year
<u>Business-Type Activities</u> (continued)						
<u>OWDA Loans</u>						
2000 OWDA Loans Payable (Original Amount \$1,027,009)	5.54%	\$534,615	\$0	\$59,490	\$475,125	\$62,786
2003 OWDA Loans Payable (Original Amount \$5,216,972)	3.89	3,596,416	0	229,666	3,366,750	238,688
2008 OWDA Loans Payable (Original Amount \$1,779,307)	1.00	2,413,536	19,719	132,204	2,301,051	0
2010 OWDA Loans Payable (Original Amount \$427,602)	3.39	399,120	0	10,620	388,500	8,222
2010 OWDA Loans Payable (Original Amount \$3,880,427)	1.00	1,792,871	39,375	91,021	1,741,225	0
2011 OWDA Loans Payable (Original Amount \$1,651,025)	1.00	1,651,025	617,887	53,173	2,215,739	0
2011 OWDA Loans Payable (Original Amount \$294,682)	3.99	281,138	31,223	27,524	284,837	14,239
Total OWDA Loans		<u>10,668,721</u>	<u>708,204</u>	<u>603,698</u>	<u>10,773,227</u>	<u>323,935</u>
<u>Other Long-Term Obligations</u>						
Capital Leases Payable		211,388	88,500	58,986	240,902	59,252
Compensated Absences Payable		113,064	0	31,592	81,472	17,699
Total Other Long-Term Obligations		<u>324,452</u>	<u>88,500</u>	<u>90,578</u>	<u>322,374</u>	<u>76,951</u>
Total Business-Type Activities		<u>\$14,604,566</u>	<u>\$796,704</u>	<u>\$860,237</u>	<u>\$14,541,033</u>	<u>\$570,445</u>

General Obligation Bonds

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

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.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

Compensated Absences

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

OPWC Loans Payable

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

OWDA Loans Payable

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

The OPWC and OWDA loans will be paid from the gross revenues of the Water and Sewer enterprise funds after provisions for reasonable operating and maintenance expenses. Annual principal and interest payments on the bonds are expected to require less than 100 percent of these net revenues in future years. The total principal and interest remaining to be paid on the OPWC and OWDA loans, for which amortization schedules are available, are \$175,432 and \$4,792,277, respectively. Principal and interest paid for the current year and net revenues were \$149,467 and (\$464,424) for the Water enterprise fund and \$714,058 and \$1,395,774 for the Sewer enterprise fund.

The City's legal debt margin was \$15,075,997 at December 31, 2012.

The wastewater treatment plant improvements, Third Street Sewer separation, and Second Street 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.



**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 18 - LONG-TERM OBLIGATIONS** (continued)

Principal and interest requirements to retire governmental activities long-term obligations outstanding at December 31, 2012, were as follows:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
2013	\$9,423	\$7,176	\$10,577	\$1,522
2014	9,423	6,713	10,577	859
2015	10,000	6,250	3,000	195
2016	10,000	5,875	0	0
2017	10,000	5,500	0	0
2018-2022	50,000	21,500	0	0
2023-2027	55,000	11,120	0	0
2028	15,000	674	0	0
Total	\$168,846	\$64,808	\$24,154	\$2,576

Principal and interest requirements to retire long-term obligations outstanding at December 31, 2012, from the business-type activities were as follows:

Year	General Obligation Bonds		OPWC	OWDA Loans	
	Principal	Interest	Loans	Principal	Interest
2013	\$155,000	\$135,435	\$14,559	\$323,935	\$168,068
2014	160,000	129,622	15,260	360,530	166,203
2015	160,000	123,622	15,260	375,702	151,030
2016	165,000	117,622	15,260	391,528	135,203
2017	170,000	111,435	15,260	408,038	118,694
2018-2022	975,000	448,376	75,601	1,938,872	343,065
2023-2027	1,210,000	226,900	24,232	632,805	46,690
2028-2030	275,000	12,375	0	83,802	5,041
Total	\$3,270,000	\$1,305,387	\$175,432	\$4,515,212	\$1,133,994

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 19 - CAPITAL LEASES - LESSEE DISCLOSURE**

The City has entered into capitalized leases for equipment and vehicles. New capital leases are reflected in the accounts "Transportation" and "Inception of Capital Lease" in the funds which will be making the lease payments. Capital lease payments are reflected as debt service expenditures on the statement of revenues, expenditures, and change in fund balance for governmental funds and as a reduction of the liability in the enterprise funds. Principal payments in 2012 were \$78,307 for governmental funds and \$58,986 for enterprise funds.

	Governmental Activities	Business-Type Activities
Vehicles	\$463,500	\$383,500
Less Accumulated Depreciation	(157,375)	(86,043)
Total	\$306,125	\$297,457

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, 2012.

Year	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	\$47,643	\$2,542	\$59,252	\$9,812
2014	17,233	1,401	61,915	7,146
2015	17,688	946	64,708	4,354
2016	18,155	479	55,027	1,428
Total	\$100,719	\$5,368	\$240,902	\$22,740

**NOTE 20 - FUND BALANCE**

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

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
(continued)

**NOTE 20 - FUND BALANCE** (continued)

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

Fund Balance	General	Other Governmental	Total Governmental Funds
Nonspendable for:			
Debt Retirement	\$10,306	\$0	\$10,306
Materials and Supplies Inventory	9,054	6,399	15,453
Unclaimed Monies	19,373	0	19,373
Total Nonspendable	<u>38,733</u>	<u>6,399</u>	<u>45,132</u>
Restricted for:			
Cemetery Maintenance	0	56,983	56,983
Debt Retirement	0	34,706	34,706
Economic Development	0	949,635	949,635
Fire Department Operations	0	423,287	423,287
Police Department Operations	0	49,154	49,154
Permanent Improvements	0	369,601	369,601
Marine Maintenance and Operations	0	7,406	7,406
Street Construction and Maintenance	0	256,681	256,681
Total Restricted	<u>0</u>	<u>2,147,453</u>	<u>2,147,453</u>
Assigned for:			
Debt Retirement	0	5,045	5,045
Permanent Improvements	0	134	134
Street Construction and Maintenance	5,001	0	5,001
Unpaid Obligations	31,345	0	31,345
Total Assigned	<u>36,346</u>	<u>5,179</u>	<u>41,525</u>
Unassigned (Deficit)	<u>1,029,436</u>	<u>(4,700)</u>	<u>1,024,736</u>
Total Fund Balance	<u><u>\$1,104,515</u></u>	<u><u>\$2,154,331</u></u>	<u><u>\$3,258,846</u></u>

**NOTE 21 - INTERFUND TRANSFERS**

During 2012, the General Fund made transfers to other governmental funds, in the amount of \$555,000, to subsidize activities of the various funds.

**City of Port Clinton**  
**Notes to the Basic Financial Statements**  
**For the Year Ended December 31, 2012**  
**(continued)**

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**NOTE 22 - INSURANCE POOL**

The City participates in the Ohio Plan Risk Management, Inc. (the "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 Plan Risk Management, Inc., 420 Madison Avenue, Toledo, Ohio 43204.

**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, 2012, to December 31, 2012, 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, 2012**

<b>FEDERAL GRANTOR</b> <i>Pass Through Grantor</i> Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
<b>U.S. DEPARTMENT OF TRANSPORTATION FEDERAL HIGHWAY ADMINISTRATION</b>			
<i>Passed Through Ohio Department of Transportation</i>			
Highway Planning and Construction	84319	20.205	<u>\$ 242,935</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
<i>Passed Through Ohio Department of Development Services Agency</i>			
Community Development Block Grant - State's Program	A-C-10-2DG-1	14.228	64,210
Home Investment Partnerships Program	A-C-10-2DG-2	14.239	<u>284,904</u>
Total U.S. Department of Housing and Urban Development			<u><b>349,114</b></u>
<b>U.S. DEPARTMENT OF COMMERCE</b>			
<i>Passed Through Ohio Department of Natural Resources</i>			
Coastal Zone Management Administration Awards	DNRFH005 306-22 6205	11.419	<u>3,645</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
<b>Direct Assistance</b>			
Treasury Executive Office for Asset Forfeiture (TEOAF)	N/A	97.XXX	<u>5,070</u>
<b>Total Federal Awards Expenditures</b>			<u><b>\$ 600,764</b></u>

The accompanying notes are an integral part of this Schedule.

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES  
FOR THE YEAR ENDED DECEMBER 31, 2012**

**NOTE A - SIGNIFICANT ACCOUNTING POLICIES**

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

**NOTE B - HOME REVOLVING LOAN PROGRAMS**

The City has a revolving loan fund (RLF) program to lend money to eligible persons to rehabilitate homes, for rental housing rehabilitation and rental assistance. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development Services Agency. The initial loan of this money would be recorded as a disbursement on the accompanying Schedule. Loans for rehabilitation are typically forgiven over a period of time unless a death and/or sale occurs during the time period. Loans repaid are considered program income. Subsequent loans are subject to the same compliance requirements imposed by HUD as the initial loans, but are also included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2012, the gross amount of loans outstanding under this program was \$873,853.

**NOTE C - MATCHING REQUIREMENTS**

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



# Dave Yost • Auditor of State

## INDEPENDENT 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 43452-1497

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 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 25, 2013 wherein we noted the City adopted Governmental Accounting Standards Board Statement No. 63 and No. 65.

### ***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. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

### ***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 no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

One Government Center, Suite 1420, Toledo, Ohio 43604-2246  
Phone: 419-245-2811 or 800-443-9276 Fax: 419-245-2484

[www.ohioauditor.gov](http://www.ohioauditor.gov)

***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.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping initial "D".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2013





# Dave Yost • Auditor of State

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

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

To the Members of City Council:

### ***Report on Compliance for Each Major Federal Program***

We have audited the City of Port Clinton's, Ottawa County, Ohio (the City) compliance with the applicable requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that could directly and materially affect each of the City's major federal programs for the year ended December 31, 2012. The *Summary of Audit Results* in the accompanying schedule of findings identifies the City's major federal programs.

### ***Management's Responsibility***

The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to opine on the City's compliance for each of the City's major federal programs based on our audit of the applicable compliance requirements referred to above. Our compliance audit followed auditing standards generally accepted in the United States of America; the standards for financial audits included in the Comptroller General of the United States' *Government Auditing Standards*; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. These standards and OMB Circular A-133 require us to plan and perform the audit to reasonably assure whether noncompliance with the applicable compliance requirements referred to above that could directly and materially affect a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our compliance opinion on the City's major programs. However, our audit does not provide a legal determination of the City's compliance.

### ***Basis for Qualified Opinion on the Highway Planning and Construction and Home Investment Partnerships Programs***

As described in Findings 2012-001 and 2012-002 in the accompanying schedule of findings, the City did not comply with requirements regarding the following:

Finding #	CFDA #	Program Name	Compliance Requirement
2012-001	20.205	Highway Planning and Construction	Procurement and Suspension and Debarment
2012-002	14.239	Home Investment Partnerships Program	Cash Management

Compliance with these requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

***Qualified Opinion on the Highway Planning and Construction and Home Investment Partnerships Programs***

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion on the Highway Planning and Construction and Home Investment Partnerships Programs* paragraph, the City of Port Clinton, Ottawa County, Ohio, complied, in all material respects, with the requirements referred to above that could directly and materially affect its Highway Planning and Construction and Home Investment Partnerships Programs for the year ended December 31, 2012.

***Report on Internal Control Over Compliance***

The City's management is responsible for establishing and maintaining effective internal control over compliance with the applicable compliance requirements referred to above. In planning and performing our compliance audit, we considered the City's internal control over compliance with the applicable requirements that could directly and materially affect a major federal program, to determine our auditing procedures appropriate for opining on each major federal program's compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not to the extent needed to opine on the effectiveness of internal control over compliance. Accordingly, we have not opined on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Therefore, we cannot assure we have identified all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, when performing their assigned functions, to prevent, or to timely detect and correct, noncompliance with a federal program's applicable compliance requirement. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a federal program's compliance requirement will not be prevented, or timely detected and corrected. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings as items 2012-001 and 2012-002 to be material weaknesses.

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

This report only describes the scope of our tests of internal control over compliance and the results of this testing based on OMB Circular A-133 requirements. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Dave Yost". The signature is written in a cursive style with a large, looping "D" and "Y".

**Dave Yost**  
Auditor of State

Columbus, Ohio

September 25, 2013

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**SCHEDULE OF FINDINGS  
OMB CIRCULAR A -133 § .505  
DECEMBER 31, 2012**

**1. SUMMARY OF AUDITOR'S RESULTS**

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unmodified
<i>(d)(1)(ii)</i>	Were there any material control weaknesses reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any 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?	Yes
<i>(d)(1)(iv)</i>	Were there any significant deficiencies in internal control reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Modified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510(a)?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Highway Planning and Construction – CFDA #20.205, Home Investment Partnerships Program – CFDA #14.239
<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**

None

**3. FINDINGS FOR FEDERAL AWARDS**

<b>Finding Number</b>	2012-001
<b>CFDA Title and Number</b>	Highway Planning and Construction - CFDA #20.205
<b>Federal Award Number / Year</b>	84319
<b>Federal Agency</b>	U.S. Department of Transportation Federal Highway Administration
<b>Pass-Through Agency</b>	Ohio Department of Transportation

**Procurement and Suspension and Debarment – Noncompliance/Material Weakness**

**2 CFR Part 180** provides, in part, that non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria. 2 CFR Section 180.220, of the government wide nonprocurement debarment and suspension guidance, contains those additional limited circumstances. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded.

The City entered into a contract on behalf of the Jet Express for a solar panel project which exceeded \$25,000 using Highway Planning and Construction funds. The City did not certify the vendor performing the work was not suspended or debarred or otherwise excluded prior to issuing the check.

The City should ensure vendors are not suspended, debarred or otherwise excluded by checking the *Excluded Parties List System* (<https://www.sam.gov/portal/public/SAM/>), obtaining a certification from the vendor, or adding a clause or condition in the contract.

**Officials’ Response:**

While historically, the City of Port Clinton Administration has certified potential vendors through the Ohio Auditor of State’s office to ensure that the parties were not suspended or debarred, this practice has not been completed through the “Excluded Parties List System” at the Federal Level. Since the time of the initial audit work, as conducted by the Ohio Auditor of State’s office, procedures have been implemented in which Mr. Walter Wehenkel, Special Projects Coordinator, and/or Mr. Cole Hatfield, Auditor, will check potential vendors through the “Excluded Parties List System” to ensure that the parties are not suspended, debarred, or otherwise excluded for all covered transactions that are equal to or exceed \$25,000.00

<b>Finding Number</b>	2012-002
<b>CFDA Title and Number</b>	Home Investment Partnerships Program - CFDA #14.239
<b>Federal Award Number / Year</b>	A-C-10-2DG-2
<b>Federal Agency</b>	U.S. Department of Housing and Urban Development
<b>Pass-Through Agency</b>	Ohio Department of Development Services Agency

**Cash Management – Noncompliance/Material Weakness**

**24 CFR Part 92.502(c)(2)** provides Home Investment Partnership (HOME) program funds drawn from the United States Treasury account must be expended for eligible costs within 15 days. Any interest earned within the 15 day period may be retained by the participating jurisdiction as HOME funds. Any funds that are drawn down and not expended for eligible costs within 15 days of the disbursement must be returned to HUD for deposit in the participating jurisdiction’s United States Treasury account of the HOME Investment Trust Fund. Interest earned after 15 days belongs to the United States and must be remitted promptly, but at least quarterly, to HUD, except that a local participating jurisdiction may retain interest amounts up to \$100 per year for administrative expenses and States are subject to the Intergovernmental Cooperation Act (31 U.S.C. 6501 et seq.).

*The Office of Housing and Community Partnerships (OHCP) Financial Management Rules and Regulations, Section (A)(3)(f) - Grantees Receiving Federal Funds –* provides the grantee must develop a cash management system to ensure compliance with the 15-day rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within 15 days of receipt of any funds. Lump sum drawdowns are not permitted. Escrow accounts are permitted only in the case of rehabilitation of private property. For the purpose of the 15-day rule only, funds deposited into an escrow account will be considered expended, but it should be noted that funds may only be in an escrow account for 20 days.

42 percent of the draw downs and subsequent expenditures selected for testing were not expended within fifteen days of receipt and the cash balance of drawdowns exceeded \$5,000. We recommend the City develop a cash management procedure to ensure HOME program funds are expended within 15 days of each drawdown or reduce the funds on hand to a balance of less than \$5,000.

**Officials’ Response:**

Near the beginning of the 2012 Fiscal Year, the City of Port Clinton had made a substantial drawdown of the CHIP-Home Program (Home Investment partnerships Program) funds in anticipation of expenses that were to occur within the 15 day cost window. Unfortunately, due to circumstances outside of the control of the City of Port Clinton, the CHIP-Home Program did not encumber the expenses as anticipated. Due to the risk of losing the funds permanently, the City of Port Clinton decided to retain the drawdown to be used for future expenditures. Since the beginning of 2013 Fiscal Year, the City of Port Clinton has been operating the CHIP-Home Program on a reimbursable basis as opposed to making a scheduled drawdown of the funds. In essence, the City of Port Clinton “up fronts” the costs associated with the CHIP-Home Program and subsequently seeks reimbursement for these expenditures.

**CITY OF PORT CLINTON  
OTTAWA COUNTY**

**CORRECTIVE ACTION PLAN  
OMB CIRCULAR A -133 § .315 (c)  
DECEMBER 31, 2012**

Finding Number	Planned Corrective Action	Anticipated Completion Date	Responsible Contact Person
2012-001	All potential vendors who have been selected for the procurement of contracts for goods and services awarded under a non-procurement transaction that are expected to equal or exceed \$25,000.00 of Federal Funds, the City of Port Clinton will verify that the entity is not suspended, debarred, or otherwise excluded by checking the "Excluded Parties List System". This certification will be verified by searching the "Excluded Parties List System" at <a href="https://www.sam.gov/portal/public/SAM/">https://www.sam.gov/portal/public/SAM/</a> .	September 30, 2013	Walter Wehenkel, Special Projects Coordinator / Cole Hatfield, Auditor
2012-002	The City of Port Clinton will operate the CHIP – Home Program (Home Investment Partnership Program) on a reimbursement basis. All expenditures associated with the CHIP-Home Program will be encumbered and expended by the City of Port Clinton and subsequent reimbursement will be sought from the funding source.	September 30, 2013	Cole Hatfield, Auditor

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# Dave Yost • Auditor of State

**CITY OF PORT CLINTON**

**OTTAWA COUNTY**

**CLERK'S CERTIFICATION**

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

*Susan Babbitt*

**CLERK OF THE BUREAU**

**CERTIFIED  
OCTOBER 10, 2013**