



**CITY OF PORT CLINTON
OTTAWA COUNTY**

REGULAR AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1998



JIM PETRO
AUDITOR OF STATE

STATE OF OHIO

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REPORT OF INDEPENDENT ACCOUNTANTS

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

To the City Council:

We have audited the accompanying general-purpose financial statements of the City of Port Clinton, Ottawa County, Ohio, (the City) as of and for the year ended December 31, 1998. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Port Clinton, Ottawa County, Ohio, as of December 31, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As described in Note 3 to the general-purpose financial statements, in 1998 the City changed its method for accounting for deferred compensation plans and changed its method of accounting for investments.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 1999 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 grants.

Jim Petro
Auditor of State

December 22, 1999

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**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
ASSETS AND OTHER DEBITS				
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$441,312	\$520,408	\$52,327	\$708,803
Cash and Cash Equivalents with Fiscal Agents			2,032	
Receivables:				
Property Taxes	350,789			
Municipal Income Taxes	388,111			
Other Local Taxes	4,826			
Accounts (net, where applicable, of allowance for uncollectibles)	56,659			
Special Assessments			445,175	
Notes		492,106		
Due from Other Governments	71,327	26,649		
Materials and Supplies Inventory	11,054	17,005		
Prepaid Items	64,631	12,268		
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents				
Fixed Assets (net, where applicable, of accumulated depreciation)				
Other Debits:				
Amount to be Provided from General Governmental Resources				
Amount to be Provided from Special Assessments				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds				
Amount Available in Debt Service Fund for Retirement of Special Assessment Bonds				
Total Assets and Other Debits	\$1,388,709	\$1,068,436	\$499,534	\$708,803

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long -term Obligations</u>	
\$1,525,094		\$9,841			\$3,257,785
177	\$124,675				126,884
					350,789
					388,111
					4,826
422,540					479,199
					445,175
					492,106
					97,976
14,255					42,314
8,597					85,496
54,422					54,422
1,144,455			\$4,337,677		5,482,132
				\$2,437,316	2,437,316
				232,630	232,630
				5,045	5,045
				47,282	47,282
<u>\$3,169,540</u>	<u>\$124,675</u>	<u>\$9,841</u>	<u>\$4,337,677</u>	<u>\$2,722,273</u>	<u>\$14,029,488</u>

(Continued)

**COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 1998
(Continued)**

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
LIABILITIES, FUND EQUITY, AND OTHER CREDITS				
Liabilities:				
Accounts Payable	\$40,536	\$15,053		\$15,870
Contracts Payable				34,092
Retainage Payable				10,763
Accrued Wages Payable	44,931	13,911		
Due to Other Governments	175,222	4,405		
Payable from Restricted Assets:				
Deposits Held and Due to Others				
Deferred Revenue	444,789		\$445,175	
Claims Payable				
Matured Interest Payable			2,032	
Accrued Interest Payable				
Notes Payable				
Compensated Absences Payable	3,023	45		
General Obligation Bonds Payable				
Special Assessment Bonds Payable				
Total Liabilities	708,501	33,414	447,207	60,725
Fund Equity and Other Credits:				
Investment in General Fixed Assets				
Retained Earnings:				
Unreserved				
Fund Balance:				
Reserved:				
Reserved for Encumbrances	41,915	25,531		22,472
Reserved for Notes Receivable		492,106		
Reserved for Inventory	11,054	17,005		
Unreserved	627,239	500,380	52,327	625,606
Total Fund Equity and Other Credits	680,208	1,035,022	52,327	648,078
Total Liabilities, Fund Equity and Other Credits	\$1,388,709	\$1,068,436	\$499,534	\$708,803

The notes to the general-purpose financial statements are an integral part of the statement.

<u>Proprietary Fund Types</u>		<u>Fiduciary Fund Types</u>	<u>Account Groups</u>		<u>Total (Memorandum Only)</u>
<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>General Fixed Assets</u>	<u>General Long -term Obligations</u>	
\$119,521					\$190,980
14,840					48,932
9,937					20,700
28,363					87,205
88,776				71,696	340,099
54,422					54,422
					889,964
	\$76,959				76,959
177					2,209
17,489					17,489
395,000				2,184,000	2,579,000
58,745				119,577	181,390
				67,088	67,088
				279,912	279,912
<u>787,270</u>	<u>76,959</u>			<u>2,722,273</u>	<u>4,836,349</u>
			\$4,337,677		4,337,677
2,382,270	47,716				2,429,986
					89,918
					492,106
					28,059
		\$9,841			1,815,393
<u>2,382,270</u>	<u>47,716</u>	<u>9,841</u>	<u>4,337,677</u>		<u>9,193,139</u>
<u>\$3,169,540</u>	<u>\$124,675</u>	<u>\$9,841</u>	<u>\$4,337,677</u>	<u>\$2,722,273</u>	<u>\$14,029,488</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	Governmental Fund Types	
	General	Special Revenue
Revenues:		
Property Taxes	\$392,263	
Municipal Income Taxes	1,815,743	
Other Local Taxes	190,351	\$19,177
Intergovernmental	637,351	351,083
Charges for Services	513,684	545
Fees, Licenses, and Permits	34,839	
Fines and Forfeitures	20,380	1,081
Special Assessments		
Interest	143,890	4,924
Miscellaneous	142,116	9,715
Total Revenues	3,890,617	386,525
Expenditures:		
Current:		
Security of Persons and Property	1,333,061	105,397
Public Health	188,464	
Leisure Time Activities	246,315	
Community Environment	8,029	56,703
Transportation		470,309
General Government	972,508	
Other		
Capital Outlay		
Debt Service:		
Principal Retirement	4,055	
Interest and Fiscal Charges	4,662	
Total Expenditures	2,757,094	632,409
Excess of Revenues Over (Under) Expenditures	1,133,523	(245,884)
Other Financing Sources (Uses)		
Proceeds of Notes	396,000	
Sale of Fixed Assets	2,661	
Operating Transfers - In	60,000	182,300
Operating Transfers - Out	(1,434,707)	
Total Other Financing Sources (Uses)	(976,046)	182,300
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	157,477	(63,584)
Fund Balances at Beginning of Year	526,994	1,090,097
Increase (Decrease) in Reserve for Inventory	(4,263)	8,509
Fund Balances at End of Year	\$680,208	\$1,035,022

The notes to the general-purpose financial statements are an integral part of the statement.

Governmental Fund Types		Fiduciary Fund Type	Total (Memorandum Only)
Debt Service	Capital Projects	Expendable Trust	
			\$392,263
			1,815,743
			209,528
			988,434
			514,229
			34,839
			21,461
\$51,759			51,759
			148,814
	\$23,503	\$1,012	176,346
<u>51,759</u>	<u>23,503</u>	<u>1,012</u>	<u>4,353,416</u>
			1,438,458
			188,464
			246,315
			64,732
			470,309
			972,508
		486	486
	1,321,209		1,321,209
1,811,945			1,816,000
82,870			87,532
<u>1,894,815</u>	<u>1,321,209</u>	<u>486</u>	<u>6,606,013</u>
<u>(1,843,056)</u>	<u>(1,297,706)</u>	<u>526</u>	<u>(2,252,597)</u>
	1,788,000		2,184,000
			2,661
1,844,140	732,526		2,818,966
	(1,384,259)		(2,818,966)
<u>1,844,140</u>	<u>1,136,267</u>		<u>2,186,661</u>
1,084	(161,439)	526	(65,936)
51,243	809,517	9,315	2,487,166
			4,246
<u>\$52,327</u>	<u>\$648,078</u>	<u>\$9,841</u>	<u>\$2,425,476</u>

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Property Taxes	\$367,000	\$392,263	\$25,263
Municipal Income Taxes	1,778,566	1,837,263	58,697
Other Local Taxes	203,847	196,252	(7,595)
Intergovernmental	643,069	625,112	(17,957)
Charges for Services	475,782	465,813	(9,969)
Fees, Licenses, and Permits	27,805	34,839	7,034
Fines and Forfeitures	22,682	20,119	(2,563)
Special Assessments			
Interest	147,880	142,370	(5,510)
Miscellaneous	176,559	142,081	(34,478)
Total Revenues	<u>3,843,190</u>	<u>3,856,112</u>	<u>12,922</u>
Expenditures:			
Current:			
Security of Persons and Property	1,368,454	1,333,391	35,063
Public Health	194,689	187,818	6,871
Leisure Time Activities	254,160	248,404	5,756
Community Environment	7,640	7,008	632
Transportation			
General Government	1,046,140	987,080	59,060
Other			
Capital Outlay			
Debt Service:			
Principal Retirement	4,055	4,055	
Interest and Fiscal Charges	4,662	4,662	
Total Expenditures	<u>2,879,800</u>	<u>2,772,418</u>	<u>107,382</u>
Excess of Revenues Over (Under) Expenditures	<u>963,390</u>	<u>1,083,694</u>	<u>120,304</u>
Other Financing Sources (Uses):			
Other Financing Sources			
Proceeds of Notes	400,000	396,000	(4,000)
Sale of Fixed Assets	2,661	2,661	
Advances - In			
Advances - Out	(500)		500
Operating Transfers - In	121,362	60,000	(61,362)
Operating Transfers - Out	(1,468,698)	(1,374,707)	93,991
Total Other Financing Sources (Uses)	<u>(945,175)</u>	<u>(916,046)</u>	<u>29,129</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	18,215	167,648	149,433
Fund Balances at Beginning of Year	126,394	126,394	
Prior Year Encumbrances Appropriated	66,255	66,255	
Fund Balances at End of Year	<u>\$210,864</u>	<u>\$360,297</u>	<u>\$149,433</u>

The notes to the general-purpose financial statements are an integral part of the statement.

Special Revenue Funds			Debt Service Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$49,929	\$19,100	(\$30,829)			
411,357	333,087	(78,270)			
1,000	545	(455)			
1,500	1,074	(426)			
746	2,115	1,369	\$50,000	\$51,759	\$1,759
53,970	9,665	(44,305)			
<u>518,502</u>	<u>365,586</u>	<u>(152,916)</u>	<u>50,000</u>	<u>51,759</u>	<u>1,759</u>
181,566	108,154	73,412			
292,674	78,536	214,138			
671,000	483,486	187,514			
			1,824,000	1,811,945	12,055
			100,000	82,870	17,130
<u>1,145,240</u>	<u>670,176</u>	<u>475,064</u>	<u>1,924,000</u>	<u>1,894,815</u>	<u>29,185</u>
<u>(626,738)</u>	<u>(304,590)</u>	<u>322,148</u>	<u>(1,874,000)</u>	<u>(1,843,056)</u>	<u>30,944</u>
87,180	106,449	19,269			
5,000		(5,000)			
255,310	182,300	(73,010)	3,000,000	1,844,140	(1,155,860)
			(5,045)		5,045
<u>347,490</u>	<u>288,749</u>	<u>(58,741)</u>	<u>2,994,955</u>	<u>1,844,140</u>	<u>(1,150,815)</u>
(279,248)	(15,841)	263,407	1,120,955	1,084	(1,119,871)
470,630	470,630		51,243	51,243	
25,435	25,435				
<u>\$216,817</u>	<u>\$480,224</u>	<u>\$263,407</u>	<u>\$1,172,198</u>	<u>\$52,327</u>	<u>(\$1,119,871)</u>

(Continued)

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998
(Continued)**

	<u>Capital Projects Funds</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Property Taxes			
Municipal Income Taxes			
Other Local Taxes			
Intergovernmental			
Charges for Services			
Fees, Licenses, and Permits			
Fines and Forfeitures			
Special Assessments			
Interest			
Miscellaneous	\$28,032	\$23,503	(\$4,529)
Total Revenues	<u>28,032</u>	<u>23,503</u>	<u>(4,529)</u>
Expenditures:			
Current:			
Security of Persons and Property			
Public Health			
Leisure Time Activities			
Community Environment			
Transportation			
General Government			
Other			
Capital Outlay	1,653,325	1,331,783	321,542
Debt Service:			
Principal Retirement			
Interest and Fiscal Charges			
Total Expenditures	<u>1,653,325</u>	<u>1,331,783</u>	<u>321,542</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,625,293)</u>	<u>(1,308,280)</u>	<u>317,013</u>
Other Financing Sources (Uses):			
Other Financing Sources			
Proceeds of Notes	1,845,580	1,788,000	(57,580)
Sale of Fixed Assets			
Advances - In			
Advances - Out			
Operating Transfers - In	688,554	732,526	43,972
Operating Transfers - Out	(1,382,000)	(1,384,259)	(2,259)
Total Other Financing Sources (Uses)	<u>1,152,134</u>	<u>1,136,267</u>	<u>(15,867)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>(473,159)</u>	<u>(172,013)</u>	<u>301,146</u>
Fund Balances at Beginning of Year	488,054	488,054	
Prior Year Encumbrances Appropriated	329,452	329,452	
Fund Balances at End of Year	<u>\$344,347</u>	<u>\$645,493</u>	<u>\$301,146</u>

The notes to the general-purpose financial statements are an integral part of the statement.

<u>Expendable Trust Fund</u>			<u>Total (Memorandum Only)</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
			\$367,000	\$392,263	\$25,263
			1,778,566	1,837,263	58,697
			253,776	215,352	(38,424)
			1,054,426	958,199	(96,227)
			476,782	466,358	(10,424)
			27,805	34,839	7,034
			24,182	21,193	(2,989)
			50,000	51,759	1,759
			148,626	144,485	(4,141)
			259,561	176,261	(83,300)
<u>\$1,000</u>	<u>\$1,012</u>	<u>\$12</u>	<u>4,440,724</u>	<u>4,297,972</u>	<u>(142,752)</u>
1,000	1,012	12			
			1,550,020	1,441,545	108,475
			194,689	187,818	6,871
			254,160	248,404	5,756
			300,314	85,544	214,770
			671,000	483,486	187,514
			1,046,140	987,080	59,060
			10,000	486	9,514
10,000	486	9,514	1,653,325	1,331,783	321,542
			1,828,055	1,816,000	12,055
			104,662	87,532	17,130
<u>10,000</u>	<u>486</u>	<u>9,514</u>	<u>7,612,365</u>	<u>6,669,678</u>	<u>942,687</u>
(9,000)	526	9,526	(3,171,641)	(2,371,706)	799,935
			87,180	106,449	19,269
			2,245,580	2,184,000	(61,580)
			2,661	2,661	
			5,000		(5,000)
			(500)		500
			4,065,226	2,818,966	(1,246,260)
			(2,855,743)	(2,758,966)	96,777
			<u>3,549,404</u>	<u>2,353,110</u>	<u>(1,196,294)</u>
(9,000)	526	9,526	377,763	(18,596)	(396,359)
9,315	9,315		1,145,636	1,145,636	
			421,142	421,142	
<u>\$315</u>	<u>\$9,841</u>	<u>\$9,526</u>	<u>\$1,944,541</u>	<u>\$1,548,182</u>	<u>(\$396,359)</u>

**COMBINED STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Operating Revenues:			
Charges for Services	\$2,727,587	\$334,863	\$3,062,450
Other Operating Revenues	<u>7,480</u>	<u>140</u>	<u>7,620</u>
 Total Operating Revenues	 <u>2,735,067</u>	 <u>335,003</u>	 <u>3,070,070</u>
Operating Expenses:			
Personal Services	1,049,332		1,049,332
Contractual Services	594,271	42,268	636,539
Materials and Supplies	437,817		437,817
Claims		312,178	312,178
Bad Debt	7,168		7,168
Depreciation	86,330		86,330
Other Operating Expenses	<u>60,000</u>	<u>250</u>	<u>60,250</u>
 Total Operating Expenses	 <u>2,234,918</u>	 <u>354,696</u>	 <u>2,589,614</u>
 Operating Income (Loss)	 <u>500,149</u>	 <u>(19,693)</u>	 <u>480,456</u>
Non-Operating Revenues (Expenses):			
Interest Income		3,763	3,763
Interest Expense	<u>(19,761)</u>		<u>(19,761)</u>
 Total Non-Operating Revenues (Expenses)	 <u>(19,761)</u>	 <u>3,763</u>	 <u>(15,998)</u>
 Net Income (Loss)	 480,388	 (15,930)	 464,458
 Retained Earnings at Beginning of Year - Restated Note 4	 <u>1,901,882</u>	 <u>63,646</u>	 <u>1,965,528</u>
 Retained Earnings at End of Year	 <u><u>\$2,382,270</u></u>	 <u><u>\$47,716</u></u>	 <u><u>\$2,429,986</u></u>

The notes to the general-purpose financial statements are an integral part of the statement.

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
ALL ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues:			
Charges for Services	\$3,092,855	\$2,796,182	(\$296,673)
Proceeds of Notes	385,265	395,000	9,735
Other Revenues	8,376	7,605	(771)
Total Revenues	<u>3,486,496</u>	<u>3,198,787</u>	<u>(287,709)</u>
Expenses:			
Personal Services	1,099,950	973,420	126,530
Contractual Services	816,211	796,173	20,038
Materials and Supplies	429,050	354,977	74,073
Capital Outlay	575,000	236,437	338,563
Debt Service:			
Principal Retirement	420,000	420,000	
Interest and Fiscal Charges	23,000	19,290	3,710
Total Expenses	<u>3,363,211</u>	<u>2,800,297</u>	<u>562,914</u>
Excess of Revenues Over Expenses	123,285	398,490	275,205
Operating Transfers - Out	<u>(60,000)</u>	<u>(60,000)</u>	
Excess of Revenues Over Expenses and Operating Transfers	63,285	338,490	275,205
Fund Balances at Beginning of Year	689,451	689,451	
Prior Year Encumbrances Appropriated	<u>277,839</u>	<u>277,839</u>	
Fund Balances at End of Year	<u>\$1,030,575</u>	<u>\$1,305,780</u>	<u>\$275,205</u>

The notes to the general-purpose financial statements are an integral part of the statement.

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
INCREASES (DECREASES) IN CASH AND CASH EQUIVALENTS			
Cash Flows from Operating Activities:			
Cash Received from Customers	\$2,795,905		\$2,795,905
Cash Received from Quasi-External Operating Transactions with Other Funds		\$334,863	334,863
Cash Payments for Personal Services	(850,899)		(850,899)
Cash Payments for Contractual Services	(588,508)	(42,268)	(630,776)
Cash Payments to Vendors for Materials and Supplies	(386,162)		(386,162)
Cash Payments for Quasi-External Operating Transactions with Other Funds	(176,123)		(176,123)
Cash Payments for Claims		(306,853)	(306,853)
Cash Received from Other Revenues	7,605	140	7,745
Cash Payments for Other Expenses		(250)	(250)
Net Cash Provided (Used) by Operating Activities	<u>801,818</u>	<u>(14,368)</u>	<u>787,450</u>
Cash Flows from Capital and Related Financing Activities:			
Principal Paid on Bond Anticipation Notes	(420,000)		(420,000)
Interest Paid on Bond Anticipation Notes	(19,290)		(19,290)
Proceeds of Notes	395,000		395,000
Acquisition of Fixed Assets	(145,579)		(145,579)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(189,869)</u>		<u>(189,869)</u>
Cash Flows from Investing Activities:			
Interest		3,763	3,763
Net Increase (Decrease) in Cash and Cash Equivalents	611,949	(10,605)	601,344
Cash and Cash Equivalents at Beginning of Year	967,744	135,280	1,103,024
Cash and Cash Equivalents at End of Year	<u>\$1,579,693</u>	<u>\$124,675</u>	<u>\$1,704,368</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES			
Operating Income (Loss)	\$500,149	(\$19,693)	\$480,456
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation	86,330		86,330
Allowance for Uncollectibles	7,168		7,168
Changes in Assets and Liabilities:			
Decrease in Accounts Receivable	39,523		39,523
Decrease in Materials and Supplies Inventory	1,117		1,117
Decrease in Prepaid Items	818		818
Increase in Accounts Payable	67,571		67,571
Decrease in Contracts Payable	(1,730)		(1,730)
Increase in Retainage Payable	9,937		9,937
Increase in Accrued Wages Payable	3,113		3,113
Increase in Due to Other Governments	50,817		50,817
Increase in Deposits Held and Due to Others	28,920		28,920
Increase in Claims Payable		5,325	5,325
Increase in Compensated Absences Payable	8,085		8,085
Net Cash Provided (Used) by Operating Activities	<u>\$801,818</u>	<u>(\$14,368)</u>	<u>\$787,450</u>

The notes to the general-purpose financial statements are an integral part of the statement.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999

NOTE 1 - DESCRIPTION OF THE CITY AND THE REPORTING ENTITY

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

Reporting Entity

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City 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 influence significantly 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 can 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 1998.

The City is associated with the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan, an insurance pool. This organization is presented in Note 19 to the combined financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources. The City also applies Financial Accounting Standards Board Statements and Interpretations issued on or before November 31, 1989, to its proprietary activities provided they do not conflict with or contradict GASB pronouncements.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

A fund is defined as a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net available expendable financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate fund types. The following categories and fund types are used by the City:

1. Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds and trust fund) are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund

The General fund is the general operating fund of the City. It is used to account 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.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources (other than amounts relating to major capital projects) whose use is restricted. The use and limitation of each special revenue fund is specified by City ordinances or federal and state statutes.

Debt Service Funds

The debt service funds are used to account for the accumulation of resources for, and the payment of, general and special assessment long-term obligation principal, interest, and related costs.

Capital Projects Funds

The capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

2. Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing activities which are similar to those found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The following are the City's proprietary fund types:

Enterprise Funds

The enterprise funds are used to account for the City's water and sewer operations. These funds are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Fund

The internal service fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis.

3. Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include expendable trust, nonexpendable trust, and agency funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. Nonexpendable trust funds are accounted for in essentially the same manner as proprietary funds. The City did not have any nonexpendable trust funds in 1998. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. Account Groups

To make a clear distinction between fixed assets related to a specific fund and those of general government, and between long-term liabilities related to a specific fund and those of a general nature, the following account groups are used:

General Fixed Assets Account Group

The general fixed assets account group is used to account for all fixed assets of the City, other than those accounted for in the proprietary funds. These assets do not represent financial resources available for expenditure.

General Long-Term Obligations Account Group

The general long-term obligations account group is used to account for all unmatured long-term obligations of the City, except those accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and the expendable trust fund are accounted for using a flow of

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet.

Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for using a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Operating statements of these funds present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported on the financial statements. Basis of accounting relates to the timing of the measurements made.

The modified accrual basis of accounting is followed for the governmental fund types, expendable trust fund, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The available period for the City is thirty-one days after year end.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: income taxes withheld by employers, intergovernmental revenues (including motor vehicle license fees, gasoline tax, and local government assistance), reimbursements due from federally funded projects for which corresponding expenditures have been made, charges for current services, fines and forfeitures, and earnings on investments. Other revenues, including income taxes other than those withheld by employers, fees, licenses, and permits, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Property taxes measurable as of December 31, 1998, and delinquent property taxes, whose availability is indeterminable and which are not intended to finance 1998 operations, have been recorded as deferred revenue. Special assessments are also recorded as deferred revenue because they do not meet the availability criteria.

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. Principal and interest on general long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service funds for payments to be made early in the following year. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

The proprietary fund types are reported using the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year end.

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, legally are required to be budgeted and appropriated.

Budgetary information for the Self-Insurance internal service fund is not reported because it is not included in the entity for which the "appropriated budget" is adopted.

1. Tax Budget

A budget of estimated revenues and expenditures for all funds is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1 to December 31 of the following year. The budget includes proposed expenditures and the means of financing for all funds. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

2. Estimated Resources

The County Budget Commission reviews the estimated revenues and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The County Budget Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the estimated beginning of year fund balance and projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate of estimated resources may be further amended during the year if the City Auditor determines that revenue to be collected will be greater than or less than prior estimates and the County Budget Commission finds the revised estimates to be reasonable. The amounts set forth in the financial statements represent estimates from the final amended official certificate of estimated resources issued during 1998.

3. Appropriations

A temporary appropriations ordinance to control the level of expenditures for all funds may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriations ordinance must be passed by April 1 of each year for the period January 1 to December 31. Appropriations may not exceed estimated resources as established in the amended official certificate of estimated resources. The allocation of appropriations among

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

departments and objects within a fund may be modified during the year with City Council approval. Several supplemental appropriations resolutions were legally enacted by the City Council during the year. The budget figures which appear in the statements of budgetary comparisons represent the appropriated budget amounts and all supplemental appropriations.

4. Budgeted Level of Expenditures

Administrative control is maintained through the establishment of detailed line-item budgets. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by the City Council. For all funds, council appropriations are made to personal services, contractual services, materials and supplies, capital outlay, other expenditures, debt retirement, and transfer accounts for each department. The appropriations set by the City Council must remain fixed unless amended by City Council resolution. More detailed appropriation allocations may be made by the City Auditor as long as the allocations are within the City Council's appropriated amount.

5. Encumbrances

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balance for subsequent-year expenditures for governmental fund types and the expendable trust fund and reported in the notes to the financial statements for the proprietary fund types.

6. Lapsing of Appropriations

At the close of each year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. The encumbered appropriation balance is carried forward to the succeeding fiscal year and is not reappropriated.

D. Cash and Cash Equivalents and Investments

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

Cash and cash equivalents that are held separately for the City by fiscal agents and not held with the City Treasurer are recorded on the combined balance sheet as "Cash and Cash Equivalents with Fiscal Agents".

During 1998, investments were limited to repurchase agreements and STAR Ohio. Repurchase agreements are reported at cost. STAR Ohio is an investment pool, managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 1998.

The City has specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General fund during 1998 amounted to \$143,890, which includes \$124,084 assigned from other City funds.

For purposes of the combined statement of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

E. Notes Receivable

Notes receivable represent the right to receive repayment for certain loans made by the City. These loans are based upon written agreements between the City and the various loan recipients (see Note 11).

F. Materials and Supplies Inventory

Inventories of materials and supplies in the governmental fund types are stated at cost while inventories in the proprietary fund types are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund types when used. Reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental fund types which indicates that it does not constitute available expendable financial resources even though it is a component of net current assets.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 1998, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which services are consumed.

H. Restricted Assets

Restricted assets represent utility deposits from customers that are restricted because their use is limited to the payment of unpaid utility bills or refunding the deposit to the customer.

I. Fixed Assets

The fixed asset values were initially determined at December 31, 1996, assigning original acquisition costs when such information was available. In cases where information supporting original costs was not available, estimated historical costs were developed. Donated fixed assets are capitalized at fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements which extend the useful life or increase the capacity or operating efficiency of the asset are capitalized at cost.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

1. General Fixed Assets

General fixed assets (fixed assets used in governmental fund type operations) are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in the governmental fund types, and the related assets are reported in the general fixed assets account group at historical cost or estimated historical cost. Assets in the general fixed assets account group are not depreciated.

Public domain (infrastructure) general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized or reported as these assets are immovable and of value only to the City.

2. Proprietary Fund Fixed Assets

Fixed assets reflected in the proprietary funds are stated at historical cost or estimated historical cost and are updated for the cost of additions and reductions during the year. Depreciation is calculated on a straight-line basis over the following estimated useful lives:

<u>Asset Category</u>	<u>Estimated Lives</u>
Buildings and Improvements	45 years
Furniture, Fixtures, and Equipment	10-15 years
Vehicles	6 years
Water and Sewer Lines	50 years

3. Capitalization of Interest

Interest is capitalized on enterprise fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from the temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. For 1998, there was no capitalized interest costs incurred on enterprise fund construction projects.

J. 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 that 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.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

For governmental fund types, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "Compensated Absences Payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. For the proprietary fund types, the entire amount of compensated absences is reported as a fund liability.

K. Accrued Liabilities and Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, required pension contributions and compensated absences that will be paid from governmental funds are reported as liabilities in the general long-term obligations account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than thirty-one days after year end are considered not to have used current available financial resources. Long-term notes and bonds are reported as liabilities of the general long-term obligations account group until due.

Long-term debt and other obligations financed by the proprietary funds are reported as liabilities in the appropriate fund.

L. Reserves of Fund Equity

The City records reservations for portions of fund balance that are segregated for specific future use or which do not represent available expendable financial resources and, therefore, are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund balance reserves have been established for encumbrances, notes receivable, and inventory related to the governmental fund types.

M. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, entitlements, and shared revenues are recorded as receivables and revenues when measurable and available. Reimbursement-type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements, and shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

N. Interfund Transactions

Quasi-external transactions are accounted for as revenues and expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

O. Use of Estimates

The preparation of 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.

P. Total Columns on General-Purpose Financial Statements

Total columns on the general-purpose financial statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For the year ended December 31, 1998, the City has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". This statement established accounting and reporting guidelines for government investments and investment pools. Under this statement, certain investments are reported at fair value. The implementation of GASB Statement No. 31 had no effect on fund balances/retained earnings as previously reported as of December 31, 1997.

The City has also implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". In 1998, the Ohio Public Employees Deferred Compensation Plan created a trust for the assets of the plan for which the City has no fiduciary responsibility. Accordingly, the assets and liabilities of the plan have been removed from the City's agency fund.

NOTE 4 - CORRECTION OF ERROR AND RESTATEMENT OF PRIOR YEAR FUND EQUITY

In prior years, information regarding the City's water and sewer lines was not available, therefore, this information was excluded from the City's financial statements. Fixed assets recorded in the enterprise funds increased \$529,503, from \$614,952 to \$1,144,455, and accumulated depreciation increased \$236,321, from \$2,411,404 to \$2,647,725 as of December 31, 1997, due to the inclusion of water and sewer lines. This increase had the following effect on net income previously reported for the year ended December 31, 1997.

	<u>Enterprise</u>
Net income as previously reported	\$396,891
Restatement for water and sewer lines	<u>(12,594)</u>
Restated amount for the year ended December 31, 1997	<u><u>\$384,297</u></u>

The addition of water and sewer lines had the following effect on retained earnings as it was previously reported as of December 31, 1997.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

	Enterprise
Retained earnings as previously reported	\$1,431,628
Restatement for water and sewer lines	470,254
Restated retained earnings December 31, 1997	\$1,901,882

NOTE 5 - COMPLIANCE

The Municipal Purposes capital projects fund had expenditures plus encumbrances in excess of appropriations for operating transfers-out, in the amount of \$2,259.

According to Article XII of the Ohio Constitution, interest earned on monies derived from fees and taxes relating to the operation, registration, or fuels of motor vehicles must be credited to the applicable special revenue fund. For 1998, the City did not distribute interest to the Street or State Highway special revenue funds.

NOTE 6 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balances/retained earnings 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 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Enterprise Funds are 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/expenses 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/expenses (budget basis) rather than as a reservation of fund balance for the governmental fund types and expendable trust fund (GAAP basis). Material encumbrances are disclosed in the notes for the proprietary fund types (GAAP basis).
4. For the proprietary funds, the acquisition and construction of fixed assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

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

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Excess of Revenues and Other Financing Sources Over
(Under) Expenditures and Other Financing Uses
Governmental Fund Types

	General	Special Revenue	Capital Projects
GAAP Basis	\$157,477	(\$63,584)	(\$161,439)
Revenue Accruals	(34,505)	85,510	
Expenditure Accruals	113,238	1,512	52,736
Encumbrances Outstanding at Year End (Budget Basis)	<u>(68,562)</u>	<u>(39,279)</u>	<u>(63,310)</u>
Budget Basis	<u>\$167,648</u>	<u>(\$15,841)</u>	<u>(\$172,013)</u>

Net Income/Excess of Revenues Over Expenses
and Operating Transfers
All Enterprise Funds

GAAP Basis	\$480,388
<u>Increases (Decreases) Due To</u>	
Revenue Accruals:	
Accrued 1997, Received in Cash 1998	501,805
Accrued 1998, Not Yet Received in Cash	(433,085)
Expense Accruals:	
Accrued 1997, Paid in Cash 1998	(231,704)
Accrued 1998, Not Yet Paid in Cash	377,136
Materials and Supplies Inventory	1,117
Prepaid Items	818
Acquisition of Fixed Assets	(145,579)
Depreciation Expense	86,330
Proceeds of Notes	395,000
Note Principal Retirement	(420,000)
Encumbrances Outstanding at Year End (Budget Basis)	<u>(273,736)</u>
Budget Basis	<u>\$338,490</u>

NOTE 7- 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 that the City Council has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

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

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the 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 provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2 percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
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) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions; and
6. The State Treasurer's investment pool (STAR Ohio).

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons; and
3. Obligations of the City.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

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. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

At year end, the City had \$3,364 in undeposited cash on hand which is included on the balance sheet of the City as part of "Equity in Pooled Cash and Cash Equivalents". The City had \$124,675 in cash and cash equivalents which are included on the balance sheet as "Cash and Cash Equivalents with Fiscal Agents". This represents monies held by the Ohio Mid-Eastern Regional Education Service Agency (OME-RESA) and Stateline TPA, Inc., the fiscal agents for the City's health insurance. The City cannot classify \$80,955 held by OME-RESA by risk under GASB Statement No. 3.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

At year end, the carrying amount of the City's deposits was \$196,005 and the bank balance was \$301,915. Of the bank balance, \$226,968 was covered by federal depository insurance and \$74,947 was uninsured and uncollateralized. Although all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. Category 1 includes investments that are insured or registered for which the securities are held by the City or the City's agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

	Category 3	Carrying Value	Fair Value
Repurchase Agreement	\$1,635,321	\$1,635,321	\$1,635,866
STAR Ohio		1,523,446	1,523,446
		\$3,158,767	\$3,159,312

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9, "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting".

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification of deposits and investments according to GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$3,439,091	
Cash on Hand	(3,364)	
Cash and Cash Equivalents with Fiscal Agents	(80,955)	
Investments:		
Repurchase Agreement	(1,635,321)	\$1,635,321
STAR Ohio	(1,523,446)	1,523,446
GASB Statement No. 3	\$196,005	\$3,158,767

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility property) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by state statute at 35 percent of the appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1994. 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.

Public utility real and personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Taxes collected on tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values on December 31 of the prior year, and at the tax rates determined in the preceding year.

Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

The County Treasurer collects property taxes on behalf of all taxing districts within the County, including the City of Port Clinton. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for all City operations for the year ended December 31, 1998, was \$3.90 per \$1,000 of assessed value. The assessed values of real, public utility, and tangible personal property upon which 1998 property tax receipts were based are as follows:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

Categories	Amount
Real Property	
Agricultural/Residential	\$64,386,120
Commercial/Industrial	26,161,070
Public Utility Property	
Real	13,440
Personal	10,024,220
Tangible Personal Property	8,461,772
Total Assessed Value	<u>\$109,046,622</u>

NOTE 9 - MUNICIPAL INCOME TAXES

The City levies and collects an income tax of 1 ½ percent based on all income earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated tax at least quarterly and file a final return annually. All income tax revenue is credited to the General fund.

NOTE 10 - RECEIVABLES

Receivables at December 31, 1998, consisted of taxes; accounts (billings for user charged services, including unbilled utility services); special assessments; notes; and intergovernmental receivables arising from grants, entitlements, and shared revenues. All receivables are considered fully collectible except for accounts receivable related to utility services.

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

	Water	Sewer	Total Enterprise Funds
Receivables:			
Accounts	\$230,255	\$231,750	\$462,005
Less: Allowance for Uncollectibles	14,660	24,805	39,465
Net Accounts Receivable	<u>\$215,595</u>	<u>\$206,945</u>	<u>\$422,540</u>

A summary of the principal items of intergovernmental receivables follows:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

	Amount
General Fund	
Estate Tax	\$47,091
Fines and Forfeitures	845
Local Government	23,356
Miscellaneous	35
Total General Fund	71,327
Special Revenue Funds	
Main Thoroughfare	
Permissive Motor Vehicle License Tax	1,302
State Highway	
Gasoline Tax	1,054
Motor Vehicle License Tax	523
Total State Highway	1,577
Street Maintenance	
Gasoline Tax	12,993
Motor Vehicle License Tax	6,453
Total Street Maintenance	19,446
Enforcement and Education	
Fines and Forfeitures	107
COPS Grant	
U.S. Treasury	4,167
Harbor Patrol	
Miscellaneous	50
Total Special Revenue Funds	26,649
Total All Funds	\$97,976

By statute, local property taxes have been reduced ten percent, with additional reductions for the elderly and the disabled. The amount of these reductions, estimated to be approximately \$39,364, will be paid to the City by the State of Ohio in the latter part of 1999.

NOTE 11 - NOTES RECEIVABLE

A summary of the changes in notes receivable during 1998 follows:

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

	Balance 12/31/97	New Loans	Repayments	Written Off During 1998	Balance 12/31/98
Special Revenue Funds:					
CDBG					
Commercial Loans	\$71,983		\$71,983		
Individual Loans	222,033		9,842	\$3,809	\$216,000
Total CDBG	294,016		81,825	3,809	216,000
FHA HPG Revolving Loan					
Individual Loans	281,453		9,885	4,538	276,106
Total	\$575,469		\$91,710	\$8,347	\$492,106

Notes receivable are reduced each year by the amount of loans which have been determined to be uncollectible. In addition, some loans have provisions that a portion of the loan will be forgiven and need not be repaid if certain requirements are met. Notes receivable on the combined balance sheet are presented net of amounts written off.

NOTE 12 - FIXED ASSETS

A. General Fixed Assets

A summary of the changes in general fixed assets during 1998 is as follows:

	Balance 12/31/97	Additions	Reductions	Balance 12/31/98
Land and Improvements	\$9,400	\$275,575		\$284,975
Buildings and Improvements	1,614,377	6,950		1,621,327
Furniture, Fixtures, and Equipment	1,148,164	159,388	\$3,100	1,304,452
Vehicles	635,590	588,114	96,781	1,126,923
Total General Fixed Assets	\$3,407,531	\$1,030,027	\$99,881	\$4,337,677

B. Enterprise Fund Fixed Assets

A summary of the enterprise funds' fixed assets at December 31, 1998, follows:

	Water	Sewer	Total Enterprise Funds
Land and Improvements	\$12,552	\$8,760	\$21,312
Buildings and Improvements	978,700	1,268,400	2,247,100
Furniture, Fixtures, and Equipment	207,517	555,915	763,432
Vehicles	41,408	89,183	130,591
Water and Sewer Lines	294,124	335,621	629,745
Total	1,534,301	2,257,879	3,792,180
Less: Accumulated Depreciation	1,218,210	1,429,515	2,647,725
Total Fixed Assets Net of Accumulated Depreciation	\$316,091	\$828,364	\$1,144,455

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City of Port Clinton contributes to the Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple employer defined benefit pension plan administered by the Public Employees Retirement Board. The System provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. The System issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 9.35 percent was the portion used to fund pension obligations. Prior to January 1, 1998, the portion used to fund pension obligations was 8.44 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contribution to the System for the years ended December 31, 1998, 1997, and 1996, were \$174,956, \$151,696, and \$148,148, respectively; 74 percent has been contributed for 1998 and 100 percent has been contributed for 1997 and 1996. The unpaid contribution for 1998, in the amount of \$45,124, is recorded as a liability within the respective funds and the general long-term obligations account group.

B. Police and Firemen's Disability and Pension Fund

The City of Port Clinton contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple employer defined benefit pension plan administered by the Fund's Board of Trustees. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefits are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent; 13 percent was the portion used to fund pension obligations. Contributions are authorized by State statute. The City's contribution to the Fund for the years ended December 31, 1998, 1997, and 1996, were \$75,427, \$69,508, and \$62,437, respectively; 72 percent has been contributed for 1998 and 100 percent has been contributed for 1997 and 1996. The unpaid contribution for 1998, in the amount of \$21,200, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System

The Public Employees Retirement System of Ohio (the "System") provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
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(Continued)

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers". A portion of each employer's contribution to the System is set aside for the funding of postretirement health care based on authority granted by State statute. The employer contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1998.

Benefits are funded on a pay-as-you-go-basis. OPB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

During 1998, OPB expenditures made by the System were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPB payments were \$9,447,325,318. At December 31, 1998, the total number of benefit recipients eligible for OPB through the System was 115,579. The City's actual contributions for 1998 which were used to fund OPB were \$78,590.

B. Police and Firemen's Disability and Pension Fund

The Police and Firemen's Disability and Pension Fund (the "Fund") provides postretirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen whether or not the child is attending school or under the age of twenty-two if attending school full-time or on a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care costs paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total employer contribution rate was 19.5 percent of covered payroll; 6.5 percent was the portion that was used to fund health care for 1998. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1997, was 11,239 for police and 9,025 for firefighters. The City's actual contributions for 1998 that were used to fund postemployment benefits were \$37,713. The Fund's total health care expenses for the year ending December 31, 1997, (the latest information available), were \$76,459,832.

NOTE 15 - OTHER EMPLOYEE BENEFITS

Compensated Absences

The criteria for determining vested vacation and sick leave components 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 earned, unused vacation leave upon termination.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

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

At December 31, 1998, the current amount of unpaid compensated absences payable from governmental funds and the balance of the liability in the general long-term obligations account group was \$3,068 and \$119,577, respectively. The short-term and long-term liability for compensated absences in the enterprise funds at December 31, 1998, was \$1,833 and \$56,912, respectively.

NOTE 16 - SHORT-TERM OBLIGATIONS

According to Ohio law, notes can be issued in anticipation of bond proceeds, special assessment bond proceeds and levies, or for up to 50 percent of anticipated revenue collections. The liability for short-term notes is presented in the fund receiving the proceeds.

The Sewer enterprise fund issued \$395,000 and retired \$420,000 in bond anticipation notes during 1998. The bond anticipation notes are backed by the full faith and credit of the City of Port Clinton and have a maturity of one year.

NOTE 17 - LONG-TERM OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 1998, was as follows:

	Interest Rate	Balance 12/31/97	Issued	Retired	Balance 12/31/98
<u>General Long-Term Obligations</u>					
Notes Payable	4.43-5.00%	\$1,784,000	\$2,184,000	\$1,784,000	\$2,184,000
General Obligation Bonds	6.22	71,143		4,055	67,088
Special Assessment Bonds	6.22-10.875%	307,857		27,945	279,912
Due to Other Governments		64,135	71,696	64,135	71,696
Compensated Absences Payable		107,870	11,707		119,577
Total General Long-Term Obligations		<u>2,335,005</u>	<u>2,267,403</u>	<u>1,880,135</u>	<u>2,722,273</u>
<u>Enterprise Fund Long-Term Obligations</u>					
Compensated Absences Payable		48,118	10,627		58,745
Total Long-Term Obligations		<u>\$2,383,123</u>	<u>\$2,278,030</u>	<u>\$1,880,135</u>	<u>\$2,781,018</u>

Notes Payable

Bond anticipation notes are supported by the full faith and credit of the City of Port Clinton. The City's long-term bond anticipation notes are presented in the general long-term obligations account group and are payable from unvoted property tax revenues.

General Obligation Bonds

All general obligation bonds are supported by the full faith and credit of the City of Port Clinton. The general obligation bonds are presented as a liability in the general long-term obligations account group and are

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

payable from unvoted property tax revenues to the extent that other resources are not available to meet annual principal and interest expenditures.

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 bonds.

Due to Other Governments

The due to other governments liability, representing the City's contractually required pension obligation, will be paid from the fund from which the employees' salaries are paid.

Compensated Absences Payable

Compensated absences are presented at net because it is not practical to determine the actual increases and decreases. The compensated absences liability will be paid from the fund from which the employees' salaries are paid.

The City's legal debt margin was \$8,783,852 at December 31, 1998.

The following is a summary of the City's future annual debt service requirements for long-term obligations:

Year	General Obligation Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest
1999	\$4,055	\$4,160	\$28,945	\$20,311
2000	4,055	3,908	28,945	17,819
2001	4,055	3,657	28,945	15,327
2002	4,055	3,405	15,945	12,835
2003	4,055	3,154	15,945	11,756
2004-2008	20,274	11,999	80,726	42,601
2009-2013	22,117	5,485	66,883	15,824
2014-2015	4,422	274	13,578	1,055
	<u>\$67,088</u>	<u>\$36,042</u>	<u>\$279,912</u>	<u>\$137,528</u>

NOTE 18 - 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. The City has entered into contracts with various insurance agencies for the following coverages and deductibles:

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(Continued)

Type of Coverage	Coverage	Deductible
Old City Hall/Fire Station/EMS	\$1,000,000	\$250
Water Works Building	2,090,000	250-1000
Sewer Plant	2,025,392	1,000
Cemetery Building and Contents	85,000	250
Senior Center/Youth Building	80,000	250
H.S. Concession/Restroom	55,000	250
Old Cemetery Storage Building	18,000	250
Parks, Playgrounds, Shelter House	38,000	250
Sewer Lift Stations	13,000-60,000	250
Boilers	1,000,000	500
Fleet Insurance - Various Vehicles	1,000,000 occurrence	250
Fire Boat	25,000	500
Harbor Patrol Boat	35,750	50
General Liability	1,000,000 occurrence	1,000
Inland Marine	125,000	500
Employee Theft/Dishonesty	25,000 occurrence	250
Elected Officials	5,000-50,000	0

There have been no significant reductions in insurance coverage from 1997 and no insurance settlement has exceeded insurance coverage during the last three years.

The City has elected to provide employee health insurance benefits through a partially self-insured program. The City established a Self-Insurance internal service fund to account for and finance the cost of the program. All funds of the City participate in the self-insurance program and make payments to the Self-Insurance internal service fund based upon actuarial estimates of the amounts needed to pay prior- and current-year claims. For 1998, the City utilized a claims servicing pool, the Ohio Mid Eastern Regional Education Service Agency (OME-RESA) to process all claims. All premiums paid to the Self-Insurance internal service fund were deposited with the claims servicing pool. At December 31, 1998, the City had \$80,955 on deposit with OME-RESA.

In 1997, the City utilized a third party administrator, Stateline TPA, Inc., to review and process insurance claims. Although the City's relationship with Stateline was terminated at December 31, 1997, the City still had \$43,720 on deposit with Stateline at December 31, 1998. All claims outstanding from the prior year were paid in 1998.

Under the City's self-insured program, the Self-Insurance internal service fund pays claims up to a maximum of \$30,000 per individual. Claims ranging from \$30,000 to \$50,000 are paid by OME-RESA, and claims in excess of \$50,000 are covered by stop-loss insurance. Settled claims have not exceeded the stop-loss coverage for the last three years.

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(Continued)

Claims payable is based on the requirement of Governmental Accounting Standards Board Statement No. 30, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated or unallocated claim adjustment expenses. Claims payable at December 31, 1998, are estimated by the third party administrator at \$76,959.

The changes in the claims liability for 1998 was:

Year	Beginning Balance	Current-Year Claims and Changes in Estimates	Claims Payments	Ending Balance
1998	\$71,634	\$312,178	\$306,853	\$76,959
1997	38,983	343,164	310,513	71,634

For 1998, the City participated in the North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (the Plan), an insurance purchasing pool. The Plan is intended to achieve the benefit of a reduced premium for the City by virtue of its grouping and representation with other participants in the Plan. The workers' compensation experience of the participating members is calculated as one experience and a common premium rate is applied to all members in the Plan. Each member pays its workers' compensation premiums to the State based on the rate for the Plan rather than its individual rate.

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

NOTE 19 - INSURANCE POOL

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

The City participates in a group rating plan for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. The North Central Ohio Municipal Finance Officers' Association Workers' Compensation Group Rating Plan (the Plan) was established through the North Central Ohio Municipal Finance Officers' Association (NCOMFOA) as a group insurance purchasing pool.

Kelly Clark serves as coordinator of the NCOMFOA. Each year, the participating members pay an enrollment fee to the NCOMFOA to cover the costs of administering the program.

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(Continued)

NOTE 20 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

The City maintains two enterprise funds which are intended to be self-supported through user fees charged for services provided to consumers for water and sewer services. Financial segment information as of and for the year ended December 31, 1998, is as follows:

	Water	Sewer	Total Enterprise Funds
Operating Revenues	\$1,545,355	\$1,189,712	\$2,735,067
Depreciation	28,569	57,761	86,330
Operating Income	446,770	53,379	500,149
Net Income	446,770	33,618	480,388
Fixed Assets:			
Additions	46,644	98,935 000	145,579
Additions	46,644	98,935	145,579
Disposals	9,500		9,500
Net Working Capital	1,226,144	68,583	1,294,727
Total Assets	1,715,183	1,454,357	3,169,540
Total Equity	1,520,801	861,469	2,382,270
Encumbrances Outstanding at Year End (Budget Basis)	68,840	204,896	273,736

NOTE 21 - YEAR 2000 ISSUE

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the government's operations as early as 1999.

The City of Port Clinton has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are necessary to conducting the City's operations. The City has identified the following systems requiring year 2000 remediation:

- Financial reporting, tax collection, utility billing, and payroll and employee benefit systems. As of December 31, 1998, the City was remediating its financial reporting, tax collection, utility billing, and payroll and employee benefit systems; validation and testing of these systems were yet to be completed; however, validation and testing were completed by October 30, 1999.
- The City receives property taxes and other resources and services (i.e., estate taxes, local government resources, 911 services) from Ottawa County. The County is responsible for remediating these systems and is solely responsible for any associated costs.
- The State of Ohio distributes various resources and services (i.e., gasoline and license taxes, local government resources, homestead/rollback, LEADS, various grants) to the City. The State is responsible for remediating these systems and is solely responsible for any associated costs.
- The City depends on various utility companies to provide utility services (i.e., electric, gas, telephone) to the City. The various utility companies are responsible for remediating these systems and are solely responsible for any associated costs.

NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
JUNE 30, 1999
(Continued)

- The City has several financial institutions that provide financial services to the City. These institutions are responsible for remediating these systems and are solely responsible for any associated costs.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City is, or will be, year 2000 ready; that the City's remediation efforts will be successful in whole or in part; or that parties with whom the City does business will be year 2000 ready.

NOTE 22 - CONTINGENT LIABILITIES

A. Litigation

The City of Port Clinton is a party to several 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, 1998, to December 31, 1998, the City received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the City believes such disallowances, if any, would be immaterial.

NOTE 23 - SUBSEQUENT EVENTS

On February 12, 1999, the City issued \$350,000 in bond anticipation notes for acquiring motorized vehicles and equipment. The notes have an interest rate of 4.35 percent and mature on February 12, 2000.

On February 12, 1999, the City issued \$1,234,000 in bond anticipation notes for remodeling, renovating, and improving the City/County Building. The notes have an interest rate of 4.35 percent and mature on February 12, 2000.

On February 12, 1999, the City issued \$395,000 in bond anticipation notes for remodeling, renovating, and improving the Wastewater Treatment Plant. The notes have an interest rate of 4.35 percent and mature on February 12, 2000.

On February 12, 1999, the City issued \$450,000 in bond anticipation notes for street improvements. The notes have an interest rate of 4.35 percent and mature on February 12, 2000.

On July 30, 1998, the City issued \$150,000 in bond anticipation notes for a downtown revitalization project. The notes have an interest rate of 5 percent and mature on July 30, 1999.



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**REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

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

To the City Council:

We have audited the financial statements of the City of Port Clinton, Ottawa County, Ohio, (the City) as of and for the year ended December 31, 1998, and have issued our report thereon dated December 22, 1999, in which we noted that the City had changed its method of accounting for investments and deferred compensation programs. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated December 22, 1999.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated December 22, 1999.

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

Jim Petro
Auditor of State

December 22, 1999



STATE OF OHIO
OFFICE OF THE AUDITOR

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CITY OF PORT CLINTON

OTTAWA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 13, 2000**