

**CITY OF CONNEAUT**  
**ASHTABULA COUNTY, OHIO**

**GENERAL-PURPOSE FINANCIAL STATEMENTS**  
**AND AUDIT REPORTS**  
**(Single Audit)**

**FOR THE YEAR ENDED DECEMBER 31, 2002**





**Auditor of State  
Betty Montgomery**

Members of Council  
City of Conneaut  
294 Main Street  
Conneaut, OH 44030

We have reviewed the Independent Auditor's Report of the City of Conneaut, Ashtabula County, prepared by S. R. Snodgrass, A.C., for the audit period January 1, 2002 through December 31, 2002. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Ordinance No. 223-87, of the City of Conneaut, states that employees shall have the right to obtain dental and prescription insurance through a payroll deduction at their own cost so long as those coverages are available through the City's health insurance plan.

Council President, James Lauer, received prescription and dental insurance coverage for himself and his wife through the City's plan at no cost to him from 1994 through 2003. The city paid a total of sixteen thousand seven hundred two dollars and fifty cents (\$16,702.50) to Medical Mutual for Mr. Lauer's insurance for the years 1994 through 2003.

Based on these facts and in accordance with Ohio Revised Code Section 117.28, a Finding for Recovery for public monies uncollected is hereby issued against Mr. James Lauer in the amount of sixteen thousand seven hundred two dollars and fifty cents (\$16,702.50). On September 10, 2003 the City received full payment from Mr. Lauer in the amount of sixteen thousand seven hundred two dollars and fifty cents (\$16,702.50).

Members of Council  
City of Conneaut  
294 Main Street  
Conneaut, OH 44030  
Page -2-

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

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

BETTY MONTGOMERY  
Auditor of State

September 19, 2003

**City of Conneaut, Ohio**  
*General-Purpose Financial Statements and Audit Reports*  
*For the Year Ended December 31, 2002*

*Table of Contents*

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	<u>Page</u>
Independent Auditor's Report	2 - 3
Combined Balance Sheet – All Fund Types and Account Groups	4 - 7
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Fund Types	8 - 9
Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget (Non-GAAP Basis) and Actual – All Governmental Fund Types	10 - 13
Combined Statement of Revenues, Expenses and Changes in Fund Equity – Proprietary Fund Type and Similar Trust Funds	14
Combined Statement of Revenues, Expenses and Changes in Fund Equity – Budget (Non-GAAP Basis) and Actual – Proprietary Fund Type and Similar Trust Fund	15 - 17
Combined Statement of Cash Flows – Proprietary Fund Types and Similar Trust Fund	18 - 19
Notes to the General-Purpose Financial Statements	20 - 47
Schedule of Expenditures of Federal Awards	48
Notes to the Schedule of Expenditures of Federal Awards	49
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	50 - 51
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	52 - 53
Schedule of Findings	54 – 55
Summary Schedule of Prior Audit Findings	56



INDEPENDENT AUDITOR'S REPORT

Members of Council  
City of Conneaut, Ohio

We have audited the accompanying general-purpose financial statements of the City of Conneaut, Ohio, as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Conneaut, Ohio, 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 auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The general-purpose financial statements referred to above do not include financial data of the Conneaut Port Authority, which should be included in order to conform with generally accepted accounting principles. Audited financial statements showing the financial position and results of financial activities of the Conneaut Port Authority were not available when these financial statements and audit report were completed.

The City does not have a complete schedule of infrastructure fixed assets and related depreciation in the enterprise funds. The effects on the financial position of the City of Conneaut, Ohio, as of December 31, 2002, and the results of its operations and cash flows of its enterprise funds for the year then ended cannot be determined.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraphs, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Conneaut, Ohio, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2003, on our consideration of the City of Conneaut, Ohio's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of the City of Conneaut, Ohio, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole.

*S. R. Snodgrass, A.C.*

Ashtabula, Ohio  
June 30, 2003

**City of Conneaut, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups*  
*December 31, 2002*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b><i>Assets and Other Debits</i></b>				
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$669,070	\$655,841	\$987,926	\$117,843
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0
Receivables:				
Taxes	908,543	836,570	513,525	14,709
Accounts	19,716	37,707	0	0
Interfund Receivable	41,946	0	0	0
Special Assessments	287,621	4,265	1,965,499	0
Accrued Interest	0	0	0	6,169
Due from Other Funds	16,318	258	0	4,697
Intergovernmental	499,374	309,219	30,781	0
Due from Component Unit	0	0	0	305,000
Materials and Supplies				
Inventory	14,449	30,136	0	0
Loans Receivable	10,557	326,571	0	0
Deferred Charges	0	0	0	0
Fixed Assets (Net, where applicable, of Accumulated Depreciation)	0	0	0	0
<b>Other Debits</b>				
Amount Available in Debt Service Fund for Retirement of General Obligation Bonds	0	0	0	0
Amount Available in Debt Service Fund for Retirement of Special Assessment Loans	0	0	0	0
Amount to be Provided from General Government Resources	0	0	0	0
Amount to be Provided from Special Assessments	0	0	0	0
<b><i>Total Assets and Other Debits</i></b>	<b>\$2,467,594</b>	<b>\$2,200,567</b>	<b>\$3,497,731</b>	<b>\$448,418</b>



Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$307,188	\$23,648	\$0	\$0	\$2,761,516
0	81,171	0	0	81,171
0	0	0	0	2,273,347
377,123	0	0	0	434,546
0	0	0	0	41,946
51,396	0	0	0	2,308,781
0	0	0	0	6,169
0	3,380	0	0	24,653
0	0	0	0	839,374
0	0	0	0	305,000
81,702	0	0	0	126,287
0	0	0	0	337,128
27,868	0	0	0	27,868
10,093,990	0	7,821,944	0	17,915,934
0	0	0	615,907	615,907
0	0	0	372,019	372,019
0	0	0	2,939,992	2,939,992
0	0	0	1,341,698	1,341,698
<u>\$10,939,267</u>	<u>\$108,199</u>	<u>\$7,821,944</u>	<u>\$5,269,616</u>	<u>\$32,753,336</u>

**City of Conneaut, Ohio**  
*Combined Balance Sheet*  
*All Fund Types and Account Groups (continued)*  
*December 31, 2002*

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Liabilities</b>				
<b>Fund Equity and Other Credits</b>				
<b>Liabilities</b>				
Accounts Payable	\$32,195	\$47,629	\$0	\$0
Contracts Payable	82,551	22,405	0	249,927
Accrued Wages and Benefits	108,129	41,749	0	0
Compensated Absences Payable	4,584	2,646	0	0
Interfund Payable	0	0	0	41,946
Due to Other Funds	0	0	0	0
Intergovernmental Payable	43,938	115,779	0	0
Deferred Revenue	1,084,712	918,882	2,509,805	5,697
Deposits Held and Due to Others	0	0	0	0
Accrued Interest Payable	2,181	7,872	0	6,169
Notes Payable	300,000	388,500	0	305,000
OWDA Loans Payable	0	0	0	0
OPWC Loans Payable	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
	<u>1,658,290</u>	<u>1,545,462</u>	<u>2,509,805</u>	<u>608,739</u>
<i>Total Liabilities</i>				
<b>Fund Equity and Other Credits</b>				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Unreserved	0	0	0	0
Fund Balance:				
Reserved for Endowment	0	0	0	0
Reserved for Encumbrances	30,884	41,238	0	0
Reserved for Inventory	14,449	30,136	0	0
Reserved for Loans Receivable	10,557	326,571	0	0
Unreserved, Undesignated (Deficit)	753,414	257,160	987,926	(160,321)
	<u>809,304</u>	<u>655,105</u>	<u>987,926</u>	<u>(160,321)</u>
<i>Total Fund Equity (Deficit) and Other Credits</i>				
	<u>\$2,467,594</u>	<u>\$2,200,567</u>	<u>\$3,497,731</u>	<u>\$448,418</u>
<i>Total Liabilities, Fund Equity and Other Credits</i>				

See accompanying notes to the general purpose financial statements

Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
		General Fixed Assets	General Long-Term Obligations	
Enterprise	Trust and Agency			
\$94,126	\$0	\$0	\$0	\$173,950
29,857	0	0	0	384,740
49,437	0	0	0	199,315
397,273	0	0	675,899	1,080,402
0	0	0	0	41,946
0	24,653	0	0	24,653
42,759	10,587	0	0	213,063
0	0	0	0	4,519,096
0	44,038	0	0	44,038
87,765	0	0	0	103,987
80,000	0	0	0	1,073,500
3,262,042	0	0	0	3,262,042
451,445	0	0	0	451,445
1,091,879	0	0	2,880,000	3,971,879
0	0	0	1,713,717	1,713,717
<u>5,586,583</u>	<u>79,278</u>	<u>0</u>	<u>5,269,616</u>	<u>17,257,773</u>
0	0	7,821,944	0	7,821,944
3,420,553	0	0	0	3,420,553
1,932,131	0	0	0	1,932,131
0	28,921	0	0	28,921
0	0	0	0	72,122
0	0	0	0	44,585
0	0	0	0	337,128
0	0	0	0	1,838,179
<u>5,352,684</u>	<u>28,921</u>	<u>7,821,944</u>	<u>0</u>	<u>15,495,563</u>
<u>\$10,939,267</u>	<u>\$108,199</u>	<u>\$7,821,944</u>	<u>\$5,269,616</u>	<u>\$32,753,336</u>

**City of Conneaut, Ohio**  
*Combined Statement of Revenues, Expenditures  
and Changes in Fund Balances  
All Governmental Fund Types  
For the Year Ended December 31, 2002*

	Governmental	
	General	Special Revenue
<b>Revenues</b>		
Municipal Income Tax	\$1,993,817	\$875,596
Property and Other Taxes	225,542	495,269
Charges for Services	47,722	251,468
Fees, Licenses and Permits	138,591	17,040
Fines and Forfeitures	247,073	4,536
Intergovernmental	896,515	921,650
Special Assessments	43,584	0
Interest	41,812	3,879
Rentals	19,400	34,300
Contributions and Donations	3,160	12,533
Other	40,273	84,846
<i>Total Revenues</i>	<u>3,697,489</u>	<u>2,701,117</u>
<b>Expenditures</b>		
Current:		
General Government	1,213,125	0
Security of Persons and Property	2,243,960	913,822
Public Health and Welfare	237,554	72,283
Transportation	0	1,634,703
Community Environment	64,464	370,705
Leisure Time Activities	10,622	79,308
Capital Outlay	0	0
Debt Service:		
Principal Retirement	0	0
Interest and Fiscal Charges	8,460	13,396
<i>Total Expenditures</i>	<u>3,778,185</u>	<u>3,084,217</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(80,696)</u>	<u>(383,100)</u>
<b>Other Financing Sources (Uses)</b>		
Operating Transfers In	0	314,800
Operating Transfers Out	(314,800)	0
<i>Total Other Financing Sources (Uses)</i>	<u>(314,800)</u>	<u>314,800</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(395,496)</u>	<u>(68,300)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	1,203,433	720,732
Increase in Reserve for Inventory	1,367	2,673
<i>Fund Balances (Deficit) End of Year</i>	<u>\$809,304</u>	<u>\$655,105</u>

See accompanying notes to the general purpose financial statements

Fund Types		Totals (Memorandum Only)
Debt Service	Capital Projects	
\$0	\$45,703	\$2,915,116
446,831	0	1,167,642
0	0	299,190
0	4,697	160,328
0	64,513	316,122
5,011	559,048	2,382,224
150,043	0	193,627
0	3,675	49,366
0	0	53,700
0	0	15,693
0	0	125,119
<u>601,885</u>	<u>677,636</u>	<u>7,678,127</u>
16,822	0	1,229,947
0	0	3,157,782
0	0	309,837
0	0	1,634,703
0	0	435,169
0	0	89,930
0	856,052	856,052
433,144	28,124	461,268
228,152	33,162	283,170
<u>678,118</u>	<u>917,338</u>	<u>8,457,858</u>
<u>(76,233)</u>	<u>(239,702)</u>	<u>(779,731)</u>
0	0	314,800
0	0	(314,800)
<u>0</u>	<u>0</u>	<u>0</u>
(76,233)	(239,702)	(779,731)
1,064,159	79,381	3,067,705
0	0	4,040
<u>\$987,926</u>	<u>(\$160,321)</u>	<u>\$2,292,014</u>

**City of Conneaut, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types  
For the Year Ended December 31, 2002*

	General Fund		Variance Favorable (Unfavorable)
	Revised Budget	Actual	
<b>Revenues</b>			
Municipal Income Tax	\$1,923,000	\$1,970,862	\$47,862
Property and Other Taxes	225,800	225,542	(258)
Charges for Services	44,080	47,722	3,642
Fees, Licenses and Permits	142,760	151,968	9,208
Fines and Forfeitures	236,000	247,073	11,073
Intergovernmental	872,800	852,384	(20,416)
Special Assessments	25,000	43,584	18,584
Interest	125,000	41,812	(83,188)
Rentals	19,400	19,400	0
Contributions and Donations	1,000	3,160	2,160
Other	38,400	41,940	3,540
<i>Total Revenues</i>	<u>3,653,240</u>	<u>3,645,447</u>	<u>(7,793)</u>
<b>Expenditures</b>			
Current:			
General Government	1,247,872	1,205,900	41,972
Security of Persons and Property	2,436,427	2,296,109	140,318
Public Health and Welfare	270,746	236,243	34,503
Transportation	0	0	0
Community Environment	65,195	63,877	1,318
Leisure Time Activities	11,587	10,789	798
Capital Outlay	0	0	0
Debt Service:			
Principal Retirement	339,000	339,000	0
Interest and Fiscal Charges	10,273	10,018	255
<i>Total Expenditures</i>	<u>4,381,100</u>	<u>4,161,936</u>	<u>219,164</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(727,860)</u>	<u>(516,489)</u>	<u>211,371</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	299,000	300,000	1,000
Advances In	0	0	0
Advances Out	(41,946)	(41,946)	0
Operating Transfers In	0	0	0
Operating Transfers Out	(492,900)	(314,800)	178,100
<i>Total Other Financing Sources (Uses)</i>	<u>(235,846)</u>	<u>(56,746)</u>	<u>179,100</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(963,706)</u>	<u>(573,235)</u>	<u>390,471</u>
<i>Fund Balances Beginning of Year</i>	1,035,801	1,035,801	0
Prior Year Encumbrances Appropriated	150,212	150,212	0
<i>Fund Balances End of Year</i>	<u>\$222,307</u>	<u>\$612,778</u>	<u>\$390,471</u>

Special Revenue Fund			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$853,851	\$875,395	\$21,544	\$0	\$0	\$0
484,050	495,269	11,219	520,663	446,831	(73,832)
210,500	274,025	63,525	0	0	0
14,160	17,040	2,880	0	0	0
2,000	4,498	2,498	0	0	0
842,136	871,186	29,050	55,467	55,467	0
0	0	0	150,000	150,043	43
6,000	3,879	(2,121)	0	0	0
36,400	34,300	(2,100)	0	0	0
1,400	12,533	11,133	0	0	0
38,000	84,846	46,846	0	0	0
<u>2,488,497</u>	<u>2,672,971</u>	<u>184,474</u>	<u>726,130</u>	<u>652,341</u>	<u>(73,789)</u>
0	0	0	32,000	16,822	15,178
980,023	939,329	40,694	0	0	0
113,965	79,315	34,650	0	0	0
1,824,257	1,687,187	137,070	0	0	0
621,155	504,094	117,061	0	0	0
81,445	81,106	339	0	0	0
0	0	0	0	0	0
332,000	332,000	0	489,269	481,144	8,125
14,442	14,259	183	236,939	230,608	6,331
<u>3,967,287</u>	<u>3,637,290</u>	<u>329,997</u>	<u>758,208</u>	<u>728,574</u>	<u>29,634</u>
<u>(1,478,790)</u>	<u>(964,319)</u>	<u>514,471</u>	<u>(32,078)</u>	<u>(76,233)</u>	<u>(44,155)</u>
388,500	388,500	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
492,800	314,800	(178,000)	0	0	0
0	0	0	0	0	0
<u>881,300</u>	<u>703,300</u>	<u>(178,000)</u>	<u>0</u>	<u>0</u>	<u>0</u>
(597,490)	(261,019)	336,471	(32,078)	(76,233)	(44,155)
720,638	720,638	0	1,064,159	1,064,159	0
140,376	140,376	0	0	0	0
<u>\$263,524</u>	<u>\$599,995</u>	<u>\$336,471</u>	<u>\$1,032,081</u>	<u>\$987,926</u>	<u>(\$44,155)</u>

(continued)

**City of Conneaut, Ohio**  
*Combined Statement of Revenues, Expenditures and  
Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual  
All Governmental Fund Types (continued)  
For the Year Ended December 31, 2002*

	Capital Projects Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Municipal Income Tax	\$44,042	\$45,693	\$1,651
Property and Other Taxes	0	0	0
Charges for Services	0	0	0
Licenses, Permits and Fees	0	0	0
Fines and Forfeitures	63,000	70,683	7,683
Intergovernmental	810,895	617,009	(193,886)
Special Assessments	0	0	0
Interest	0	0	0
Rentals	0	0	0
Gifts and Donations	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>917,937</u>	<u>733,385</u>	<u>(184,552)</u>
<b>Expenditures</b>			
Current:			
General Government	0	0	0
Security of Persons and Property	0	0	0
Public Health and Welfare	0	0	0
Transportation	0	0	0
Community Environment	0	0	0
Leisure Time Activities	0	0	0
Capital Outlay	853,987	694,182	159,805
Debt Service:			
Principal Retirement	383,124	383,124	0
Interest and Fiscal Charges	37,448	37,448	0
<i>Total Expenditures</i>	<u>1,274,559</u>	<u>1,114,754</u>	<u>159,805</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(356,622)</u>	<u>(381,369)</u>	<u>(24,747)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds of Notes	305,000	305,000	0
Advances In	0	41,946	41,946
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>305,000</u>	<u>346,946</u>	<u>41,946</u>
<i>Excess of Revenues and Other Financing Sources Under Expenditures and Other Financing Uses</i>	<u>(51,622)</u>	<u>(34,423)</u>	<u>17,199</u>
<i>Fund Balances Beginning of Year</i>	147,770	147,770	0
Prior Year Encumbrances Appropriated	4,496	4,496	0
<i>Fund Balances End of Year</i>	<u>\$100,644</u>	<u>\$117,843</u>	<u>\$17,199</u>

See accompanying notes to the general purpose financial statements



Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$2,820,893	\$2,891,950	\$71,057
1,230,513	1,167,642	(62,871)
254,580	321,747	67,167
156,920	169,008	12,088
301,000	322,254	21,254
2,581,298	2,396,046	(185,252)
175,000	193,627	18,627
131,000	45,691	(85,309)
55,800	53,700	(2,100)
2,400	15,693	13,293
76,400	126,786	50,386
<u>7,785,804</u>	<u>7,704,144</u>	<u>(81,660)</u>
1,279,872	1,222,722	57,150
3,416,450	3,235,438	181,012
384,711	315,558	69,153
1,824,257	1,687,187	137,070
686,350	567,971	118,379
93,032	91,895	1,137
853,987	694,182	159,805
1,543,393	1,535,268	8,125
299,102	292,333	6,769
<u>10,381,154</u>	<u>9,642,554</u>	<u>738,600</u>
<u>(2,595,350)</u>	<u>(1,938,410)</u>	<u>656,940</u>
992,500	993,500	1,000
0	41,946	41,946
(41,946)	(41,946)	0
492,800	314,800	(178,000)
<u>(492,900)</u>	<u>(314,800)</u>	<u>178,100</u>
<u>950,454</u>	<u>993,500</u>	<u>43,046</u>
(1,644,896)	(944,910)	699,986
2,968,368	2,968,368	0
295,084	295,084	0
<u>\$1,618,556</u>	<u>\$2,318,542</u>	<u>\$699,986</u>

**City of Conneaut, Ohio**  
*Combined Statement of Revenues,  
Expenses and Changes in Fund Equity  
Proprietary Fund Type and Similar Trust Fund  
For the Year Ended December 31, 2002*

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
<b>Operating Revenues</b>			
Charges for Services	\$2,983,892	\$0	\$2,983,892
Tap-In Fees	37,412	0	37,412
Interest	0	898	898
Other	6,786	0	6,786
<i>Total Operating Revenues</i>	<u>3,028,090</u>	<u>898</u>	<u>3,028,988</u>
<b>Operating Expenses</b>			
Personal Services	1,447,729	0	1,447,729
Materials and Supplies	576,141	0	576,141
Contractual Services	103,658	188	103,846
Purchased Services	409,083	0	409,083
Other	7,583	0	7,583
Depreciation	321,482	0	321,482
<i>Total Operating Expenses</i>	<u>2,865,676</u>	<u>188</u>	<u>2,865,864</u>
<i>Operating Income</i>	<u>162,414</u>	<u>710</u>	<u>163,124</u>
<b>Non-Operating Revenues (Expenses)</b>			
Interest	3,698	0	3,698
Capital Contributions	438,302	0	438,302
Loss on Disposal of Fixed Assets	(1,988)	0	(1,988)
Interest and Fiscal Charges	(232,097)	0	(232,097)
Special Assessments	51,396	0	51,396
<i>Total Non-Operating Revenues (Expenses)</i>	<u>259,311</u>	<u>0</u>	<u>259,311</u>
<i>Net Income</i>	421,725	710	422,435
<i>Retained Earnings Beginning of Year</i>	<u>1,510,406</u>	<u>28,211</u>	<u>1,538,617</u>
<i>Retained Earnings End of Year</i>	1,932,131	28,921	1,961,052
<i>Contributed Capital Beginning and End of Year</i>	<u>3,420,553</u>	<u>0</u>	<u>3,420,553</u>
<i>Total Fund Equity End of Year</i>	<u>\$5,352,684</u>	<u>\$28,921</u>	<u>\$5,381,605</u>

See accompanying notes to the general purpose financial statements

**City of Conneaut, Ohio**  
*Combined Statement of Revenues, Expenses and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Proprietary Fund Type and Similar Trust Fund  
For the Year Ended December 31, 2002*

	Enterp(continued)rse Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$3,232,100	\$2,962,267	(\$269,833)
Tap-In Fees	28,500	37,412	8,912
Interest	4,800	3,698	(1,102)
Proceeds of Notes	30,000	30,000	0
Other	1,500	6,786	5,286
<i>Total Revenues</i>	<u>3,296,900</u>	<u>3,040,163</u>	<u>(256,737)</u>
<b>Expenses</b>			
Personal Services	1,431,048	1,404,626	26,422
Materials and Supplies	619,677	585,308	34,369
Contractual Services	101,315	94,430	6,885
Purchased Services	596,958	420,030	176,928
Capital Outlay	251,719	86,896	164,823
Other	5,400	3,264	2,136
Debt Service:			
Principal Retirement	401,578	401,575	3
Interest and Fiscal Charges	236,355	236,351	4
<i>Total Expenses</i>	<u>3,644,050</u>	<u>3,232,480</u>	<u>411,570</u>
<i>Excess of Revenues Over (Under) Expenses</i>	(347,150)	(192,317)	154,833
<i>Fund Equity Beginning of Year</i>	391,675	391,675	0
Prior Year Encumbrances Appropriated	<u>78,781</u>	<u>78,781</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$123,306</u></u>	<u><u>\$278,139</u></u>	<u><u>\$154,833</u></u>

**City of Conneaut, Ohio**  
*Combined Statement of Revenues, Expenses and  
Changes in Fund Equity - Budget (Non-GAAP Basis) and Actual  
Proprietary Fund Type and Similar Trust Fund (continued)  
For the Year Ended December 31, 2002*

	Nonexpendable Trust		
	Revised Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues</b>			
Charges for Services	\$0	\$0	\$0
Tap-In Fees	0	0	0
Interest	1,000	898	(102)
Proceeds of Notes	0	0	0
Other	0	0	0
<i>Total Revenues</i>	<u>1,000</u>	<u>898</u>	<u>(102)</u>
<b>Expenses</b>			
Personal Services	0	0	0
Materials and Supplies	0	0	0
Contractual Services	800	204	596
Purchased Services	0	0	0
Capital Outlay	0	0	0
Other	0	0	0
Debt Service:			
Principal Retirement	0	0	0
Interest and Fiscal Charges	0	0	0
<i>Total Expenses</i>	<u>800</u>	<u>204</u>	<u>596</u>
<i>Excess of Revenues Over (Under) Expenses</i>	200	694	494
<i>Fund Equity Beginning of Year</i>	28,227	28,227	0
Prior Year Encumbrances Appropriated	<u>0</u>	<u>0</u>	<u>0</u>
<i>Fund Equity End of Year</i>	<u><u>\$28,427</u></u>	<u><u>\$28,921</u></u>	<u><u>\$494</u></u>

See accompanying notes to the general purpose financial statements

Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)
\$3,232,100	\$2,962,267	(\$269,833)
28,500	37,412	8,912
5,800	4,596	(1,204)
30,000	30,000	0
1,500	6,786	5,286
<u>3,297,900</u>	<u>3,041,061</u>	<u>(256,839)</u>
1,431,048	1,404,626	26,422
619,677	585,308	34,369
102,115	94,634	7,481
596,958	420,030	176,928
251,719	86,896	164,823
5,400	3,264	2,136
401,578	401,575	3
236,355	236,351	4
<u>3,644,850</u>	<u>3,232,684</u>	<u>412,166</u>
(346,950)	(191,623)	155,327
419,902	419,902	0
78,781	78,781	0
<u>\$151,733</u>	<u>\$307,060</u>	<u>\$155,327</u>

**City of Conneaut, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type and Similar Trust Fund*  
*For the Year Ended December 31, 2002*

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)
	Enterprise	Nonexpendable Trust	
<b><i>Increase (Decrease) in Cash and Cash Equivalents</i></b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$2,962,345	\$0	\$2,962,345
Cash Received from Tap-In Fees	37,412	0	37,412
Cash Payments to Suppliers for Good and Services	(982,492)	0	(982,492)
Cash Payments for Contractual Services	(92,430)	(188)	(92,618)
Cash Payments for Employee Services and Benefits	(1,404,626)	0	(1,404,626)
Other Cash Receipts	6,786	0	6,786
Other Cash Payments	(3,264)	0	(3,264)
<i>Net Cash Provided by (Used for) Operating Activities</i>	523,731	(188)	523,543
<b>Cash Flows from Capital and Related Financing Activities</b>			
Proceeds of Notes	30,000	0	30,000
Acquisition of Capital Assets	(82,693)	0	(82,693)
Principal Payments - General Obligation Bonds	(70,000)	0	(70,000)
Interest Payments - General Obligation Bonds	(52,360)	0	(52,360)
Principal Payments - OWDA Loans	(225,788)	0	(225,788)
Interest Payments - OWDA Loans	(141,983)	0	(141,983)
Principal Payments - OPWC Loans	(39,787)	0	(39,787)
Principal Payments - Notes Payable	(66,000)	0	(66,000)
Interest Payments - Notes Payable	(42,008)	0	(42,008)
<i>Net Cash Used for Capital and Related Financing Activities</i>	(690,619)	0	(690,619)
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	3,698	898	4,596
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(163,190)	710	(162,480)
<i>Cash and Cash Equivalents Beginning of Year</i>	470,378	28,211	498,589
<i>Cash and Cash Equivalents End of Year</i>	\$307,188	\$28,921	\$336,109

(continued)

**City of Conneaut, Ohio**  
*Combined Statement of Cash Flows*  
*Proprietary Fund Type and Similar Trust Fund (continued)*  
*For the Year Ended December 31, 2002*

	Proprietary Fund Type	Fiduciary Fund Type	
	Enterprise	Nonexpendable Trust	Totals (Memorandum Only)
<b>Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities</b>			
<i>Operating Income</i>	\$162,414	\$710	\$163,124
<i>Adjustments:</i>			
Interest	0	(898)	(898)
Depreciation	321,482	0	321,482
(Increase)/Decrease in Assets:			
Accounts Receivable	(21,625)	0	(21,625)
Materials and Supplies Inventory	4,383	0	4,383
Increase/(Decrease) in Liabilities:			
Accounts Payable	12,684	0	12,684
Contracts Payable	(8,330)	0	(8,330)
Accrued Wages	3,293	0	3,293
Compensated Absences Payable	33,072	0	33,072
Intergovernmental Payable	16,358	0	16,358
<i>Total Adjustments</i>	361,317	(898)	360,419
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$523,731	(\$188)	\$523,543

**Reconciliation of Cash and Cash Equivalents of Nonexpendable Trust Funds to Balance Sheet:**

*Cash and Cash Equivalents - All Fiduciary Funds:*

Cash and Cash Equivalents	\$23,648
Cash and Cash Equivalents in Segregated Accounts	81,171
Total Cash and Cash Equivalents - All Fiduciary Funds	104,819
Less: Cash and Cash Equivalents - Agency Funds	(75,898)
Cash and Cash Equivalents - Nonexpendable Trust Funds	\$28,921

See accompanying notes to general purpose financial statements

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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**Note 1 - Reporting Entity**

The City of Conneaut is a charter municipal corporation duly organized and existing under the constitution and laws of the State of Ohio. The City may exercise all powers of local self-government and police powers to the extent not in conflict with applicable general laws. The City was incorporated as a city in 1902. The City operates under its own charter and is governed by a City Manager-Council form of government. Members of Council are elected to two-year terms.

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, agencies, departments and offices that are not legally separate from the City. The primary government includes the City departments and agencies that provide the following services: police protection, fire fighting and prevention, street maintenance and repairs, building inspection, parks and recreation, water and wastewater. The operation of each of these activities is directly controlled by Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the City is obligated for the debt of the organization. Component units may also include organizations for which the City approves the final budget, the issuing of debt or the levying of taxes.

The component unit information has not been included as part of the City of Conneaut's General-Purpose Financial Statements as required by GASB-14. The financial statements were not available.

Conneaut Port Authority. The Conneaut Port Authority is a legally separate, non-profit organization, statutorily created under Section 4582.02 of the Ohio Revised Code, served by a seven-member board appointed by the City Manager. Charged with the responsibility of industrial development and the improvement of Conneaut's waterways, the Port Authority is empowered with the ability to carry out the actions they consider necessary to achieve these responsibilities. Since the City appoints the voting majority of the Board and is financially accountable for the Port Authority, the Port Authority is a component unit of the City. Once completed, separately issued financial statements can be obtained from the Conneaut Port Authority, 1205 Broad Street, Conneaut, Ohio 44030.

Related Organization - The Conneaut Public Library is a related organization of the City of Conneaut. The City Manager is responsible for appointing the five-member board of trustees; however, the City cannot influence the Library's operation nor does the Library represent a potential financial benefit or burden on the City. The City serves in a ministerial capacity as the taxing authority for the Library. When the Library decides to present a levy to the voters, the City



**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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must place the levy on the ballot. The Library may not issue debt. The Library did not receive any funding from the City during 2002. Separately issued financial statements can be obtained from the Conneaut Public Library, 304 Buffalo Street, Conneaut, Ohio 44030.

**Note 2 - Summary of Significant Accounting Policies**

The financial statements of the City of Conneaut have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued prior to November 30, 1989 to its proprietary activities, provided they do not contradict or conflict with GASB pronouncements. The City's significant accounting policies are described below.

***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 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 expendable available financial resources.

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

***Governmental Fund Types***

Governmental funds are those through which most governmental functions of the City are financed. The following are the City's governmental fund types:

General Fund - This fund 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 - These funds are established to account for the proceeds of specific revenue sources (other than amounts for major capital projects) that are legally restricted to expenditure for specified purposes.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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Debt Service Funds - The debt service fund is used to account for the accumulation of financial resources for, and the payment of, general and special assessment long-term obligation principal, interest and related costs

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the enterprise fund).

*Proprietary Fund Type*

Proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector. The following is the City's proprietary fund type:

Enterprise Funds - The enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges.

*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 governmental units and/or other funds. There are two types of fiduciary funds, trust and agency. Agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement or results of operations.

*Account Groups*

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

General Fixed Assets Account Group - to account for all general fixed assets of the City other than those accounted for in the enterprise funds.

General Long-Term Obligations Account Group - to account for all unmatured long-term indebtedness of the City that is not a specific liability of the enterprise funds, including special assessment debt for which the City is obligated in some manner.

***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 funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are 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.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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The proprietary and nonexpendable trust funds are accounted for on 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 present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

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

All governmental fund types and agency funds are accounted for using the modified accrual basis of accounting. The proprietary and non-expendable trust funds are accounted using the full accrual basis of accounting.

*Revenues – Exchange and Non-exchange Transactions*

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

Non-exchange transactions, in which the city receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the year for which the tax is levied (see Note 7). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include: timing requirements, which specify the year when the resources are required to be used, or the year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specified purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized. The following revenue sources are considered to be both measurable and available, under the modified accrual basis, at year-end: income taxes, state-levied locally share taxes, interest, grants, fees and rentals.

*Deferred Revenue*

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes, for which there is an enforceable legal claim as of December 31, 2002, but which were levied to finance year 2003 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue. On the modified accrual basis, receivables that will not be collected within the available period have also been reported as deferred revenue.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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*Expenses/Expenditures*

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

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

***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 appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations ordinance 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, are legally required to be budgeted and appropriated. The legal level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council at the legal level of control. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The Director of Finance is authorized to transfer appropriations between line items within an object of any department. During the year, several supplemental appropriation measures were passed.

*Tax Budget*

During the first Council meeting in July, the City Manager presents the annual operating budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

*Estimated Resources*

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The 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 projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal 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 unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if the Finance Director determines, and the Budget Commission agrees, that an estimate needs to be either increased or decreased. The amounts reported as final budgeted amounts on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2002.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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*Appropriations*

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 to December 31. The appropriation ordinance may be amended during the year, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified.

The amounts reported as the budgeted amounts in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications passed by Council during the year.

*Encumbrances*

As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are 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. The Ohio Revised Code prohibits expenditures plus encumbrances from exceeding appropriations at the legal level of control. On the GAAP basis, encumbrances outstanding at year-end for governmental funds are reported as reservations of fund balances for subsequent year expenditures. Encumbrances for the enterprise funds are disclosed in the notes to the financial statements.

*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 appropriations. Encumbrances are carried forward and are not re-appropriated as part of the subsequent year appropriations.

***D. Cash and Cash Equivalents***

Cash received by the City is deposited into a central bank account. Monies for all funds, including the enterprise funds, are maintained in this account or temporarily used to purchase short-term investments. Individual fund integrity is maintained through the City's records. Each fund's interest in the pooled bank account is presented as "equity in pooled cash and cash equivalents" on the combined balance sheet. During 2002, investments were limited to sweep accounts and interest in STAROhio, the State Treasurer's investment pool for governments within the State. STAROhio 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 STAROhio are valued at STAROhio's share price, which is the price the investment could be sold for on December 31, 2002.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2002 amounted to \$41,812, which includes \$ 29,141 assigned from other City funds.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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The City has segregated bank accounts for monies held separate from the City's central bank account. These interest-bearing depository accounts are presented on the combined balance sheet as "cash and cash equivalents in segregated accounts" since they are not required to be deposited into the City's treasury.

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 original maturities of three months or less at the time they are purchased by the City are considered to be cash equivalents. Investments with an original maturity of more than three months, not purchased from the pool, are reported as investments.

***E. Interfund Assets and Liabilities***

Receivables and payables resulting from transactions between funds for services provided or goods received and amounts to be distributed from agency funds to operating funds are classified as "Due to" and "Due from" Other Funds; and short-term interfund loans between funds are classified as "Interfund Receivable" and "Interfund Payable" on the balance sheet.

***F. Inventory***

Inventory is stated at cost for governmental funds and at the lower of cost or market for the enterprise funds. 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 funds when purchased and as expenses in the enterprise funds when used. Recorded inventories in the governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute available, spendable 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, 2002 are recorded as prepaid items by using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase, and an expenditure/expense is reported in the year in which services are consumed. The City had no material prepaid items at December 31, 2002.

***H. Fixed Assets***

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the funds.

All purchased fixed assets are valued at cost when historical records are available and at estimated historical cost when no historical records exist. Donated fixed assets are valued at their estimated fair market value at the time received.

Improvements are capitalized. The costs of normal maintenance and repairs that do not add to the value of an asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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Infrastructure fixed assets such as roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are not capitalized (not reported as part of the General Fixed Assets Account Group), as these assets are immovable and of value only to the City.

Assets in the general fixed assets account group are not depreciated. Depreciation for the proprietary funds' fixed assets is determined using the straight-line method over an estimated useful life. The lives used are as follows:

Buildings, Structures and Improvements	10 - 30 years
Equipment	5 - 25 years
Vehicles	5 - 6 years
Infrastructure	60 years

***I. 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, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the general long-term obligations account group to the extent that they will not be paid with current expendable available financial resources. Payments made more than sixty days after year-end are considered not to have been made with current expendable available financial resources. Bonds and long-term loans are recognized as a liability of the general long-term obligations account group until due.

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

***J. Compensated Absences***

The liability for compensated absences is based on the provisions of Governmental Accounting Standards Board Statement No. 16, "Accounting for 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 termination method. A liability is accrued for employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The liability is based on the sick leave accumulated and employee's wage rates at December 31 by those employees who are currently eligible to receive termination payments and by those employees for whom it is probable they will become eligible to receive termination benefits in the future, taking into consideration any limits specified in the City's termination policy.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

***K. Contributed Capital***

Contributed capital represents resources provided prior to 2001 to the enterprise funds from other funds, other governments and private sources that are not subject to repayment. These assets are recorded at their fair market value on the date donated, or at actual cost, if provided from another fund of the City. Depreciation on these assets acquired or constructed with contributed resources is expensed and closed to unreserved retained earnings at year-end. Capital contributions received after 2000 from other governments and private sources are reported as non-operating revenue.

***L. Reserves of Fund Equity***

Reservations of fund balances are established to identify the existence of assets that, because of their non-monetary nature or lack of liquidity, represent financial resources not available for current appropriations or expenditure, including amounts legally segregated for a specific future use. As a result, an endowment, encumbrances, loans receivable and inventories are recorded as a reservation of fund balance.

***M. 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 a reduction 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.

***N. Memorandum Only - Total Columns***

Total columns on the general-purpose financial statements are captioned "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 aggregation of this data.

***O. 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.



**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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***P. Amortization of Bond Issuance Costs***

Bond issuance costs for underwriting fees and bond insurance for the sewer revenue refunding bonds and the water revenue bonds are being amortized using the straight-line method over the life of the bonds in the City's enterprise funds. The straight-line method of amortization is not materially different from the effective-interest method.

***Q. Bond Premium Costs***

Bond premium costs for the proprietary fund types are deferred and amortized over the term of the bonds using the straight-line method since the results are not significantly different from the effective interest method.

**Note 3 – Restatement of Fund Balances and Retained Earnings**

The City had the following adjustments to beginning fund balance due to a fund type reclassification:

	Debt Service	Capital Projects
Fund Balances as Previously Recorded	\$1,116,240	\$ 27,300
Fund Reclassification	(52,081)	52,081
Restated Balance December 31, 2001	\$1,064,159	\$ 79,381

**Note 4 – Budgetary Basis of Accounting**

While reporting financial position, results of operations and changes in fund balances on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for transactions on a basis of cash receipts, disbursements and encumbrances. The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual (Budget Basis) – All Governmental Fund Types is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget and to demonstrate compliance with state statute. The major differences between the budget basis and the GAAP basis (generally accepted accounting principles) are:

- 1) Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
- 2) Expenditures/expenses are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
- 3) Outstanding year-end encumbrances are treated as expenditures for all funds (budget) rather than as a reservation of fund balance for governmental fund types and as note disclosure in the proprietary fund type and similar trust fund (GAAP).

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

- 4) Short-term note proceeds and note principal retirement for governmental and proprietary funds are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
- 5) For proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP).

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements on a fund type basis.

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

	General	Special Revenue	Debt Service	Capital Projects
GAAP Basis	\$(395,496)	\$ (68,300)	\$(76,233)	\$(239,702)
Net Adjustment for Revenue Accruals	(52,042)	19,854	2,456	55,749
Revenue Reclassified for Debt	-	(48,000)	48,000	-
Net Adjustment for Expenditure Accruals	11,544	(165,227)	(2,456)	157,584
Note Retirement	(339,000)	(332,000)	(48,000)	(355,000)
Proceeds of Notes	300,000	388,500	-	305,000
Advance In	-	-	-	41,946
Advance Out	(41,946)	-	-	-
Encumbrances	(56,295)	(55,846)	-	-
Budget Basis	<u>\$(573,235)</u>	<u>\$ (261,019)</u>	<u>\$(76,233)</u>	<u>\$ (34,423)</u>

	Enterprise	Nonexpendable Trust
GAAP Basis	\$ 421,725	\$ 710
Net Adjustment for Revenue Accruals	(511,323)	-
Net Adjustment for Expenditure Accruals	(106,270)	(16)
Principal Retirement	(401,575)	-
Proceeds of Notes	30,000	-
Capital Outlay	82,693	-
Depreciation	321,482	-
Encumbrances	(29,049)	-
Budget Basis	<u>\$ (192,317)</u>	<u>\$ 694</u>

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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**Note 5 - Accountability and Compliance**

***A. Deficit Balances***

The following funds had a deficit fund balance as of December 31, 2002:

<i>Special Revenue Funds:</i>	
Street Construction, Maintenance and Repair	\$215,224
Police Pension	16,164
Fire Pension	33,864
<i>Capital Projects Fund:</i>	
Street Improvement	233,350
CDBG	41,946

The deficits in the special revenue and capital project funds resulted from adjustments for accrued liabilities. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, rather than when accruals occur.

**Note 6 - Deposits and Investments**

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

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

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

Interim deposits are deposits of interim monies. Interim monies are those monies that 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 Finance Director 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.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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

1. United States Treasury Notes, Bills, Bonds, 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 obligations or securities 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 issuance's 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 two 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) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio).
7. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time.

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

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

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Finance Director or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

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".

***A. Deposits***

At fiscal year-end, the carrying amount of the City's deposits was \$1,405,246 and the bank balance was \$1,493,023 of which \$139,877 was covered by federal depository insurance. The remaining amounts were protected by qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 105 percent of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions. Although the securities serving as collateral were held by the pledging institution in the pledging institution's name and all state statutory requirements for the deposit of money had been followed, noncompliance with federal requirements would potentially subject the City to a successful claim by the FDIC.

***B. Investments***

The City's investments are required to be 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 or for which the securities are held by the City or its 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. The City's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form. STAROhio's fair value at December 31, 2002 is \$1,437,441.

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, entitled "Reporting Cash Flows of Proprietary and Non-Expendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting."

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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

	Total Cash and Cash Equivalents	Investments
GASB Statement No. 9	\$ 2,842,687	\$ -
Investments of cash management pool:		
STAROhio	(1,437,441)	1,437,441
GASB Statement No. 3	\$ 1,405,246	\$1,437,441

**Note 7 - Taxes**

***A. Property Taxes***

Property taxes include amounts levied against all real, public utility and tangible personal property located in the City. Property tax revenue received during 2002 for real and public utility property taxes represents collections of the 2001 taxes. Property tax payments received during 2002 for tangible personal property (other than public utility property) are for 2002 taxes.

2002 real property taxes are levied after October 1, 2002 on the assessed value as of January 1, 2002, the lien date. Assessed values are established by State law at 35 percent of appraised market value. All property is required to be revalued every three years. The last revaluation was completed in 2002. 2002 real property taxes are collected in, and intended to finance, 2003.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2002 public utility property taxes became a lien December 31, 2001, are levied after October 1, 2002, and are collected in 2003 with real property taxes.

2002 tangible personal property taxes (other than public utility) are levied after October 1, 2001, on the value as of December 31, 2001. Collections are made in 2002. Tangible personal property assessments are 25 percent of its true value for capital assets and 24 percent of true value for inventory. The full tax rate for all City operations for the year ended December 31, 2002 was \$20.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2002 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate Property	\$ 136,906,740
Tangible Personal Property	12,380,690
Public Utility Property	19,503,980
Total	\$ 168,791,410

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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Real property taxes are payable annually or semi-annually. If paid annually, the payment is due by December 31, if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, 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 in the County, including the City of Conneaut. The County Auditor periodically remits to the City its portion of the taxes collected.

Property taxes receivable represents real and tangible personal property taxes and public utility taxes which are measurable as of December 31, 2002 and for which there is an enforceable legal claim. Although property tax collections for the next year are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31, nor were they intended to finance 2002 operations. The receivable is offset by deferred revenue.

***B. Income Taxes***

The City levies a municipal income tax of 1.65 percent on all salaries, wages, commissions and other compensation, and net profits earned within the City, as well as incomes of residents earned outside of the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality to a maximum of the total amount assessed.

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

Income tax proceeds are received by the General Fund, Street Construction, Maintenance and Repair, Street Lighting, and Recreation special revenue funds and the Capital Improvements capital projects fund.

**Note 8 - Receivables**

Receivables at December 31, 2002, primarily consisted of taxes, accounts (billings for user charged services including unbilled utility services), intergovernmental receivables arising from grants, entitlement and shared revenues, special assessments, loans receivable and interest on investments. All receivables are considered fully collectible.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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A summary of the principal items of intergovernmental receivables is as follows:

	<u>Amount</u>
<b>General Fund:</b>	
Undivided Local Government	\$417,702
Estate Tax	67,847
Homestead and Rollback	<u>13,825</u>
<i>Total General Fund</i>	<u>499,374</u>
 <b>Special Revenue Funds:</b>	
Street Construction, Maintenance & Repair	154,782
Auto Permissive Tax	74,079
Ambulance	37,707
State Highway	12,550
Police Pension	12,173
Fire Levy	7,365
Police Levy	6,737
Fire Pension	<u>3,826</u>
<i>Total Special Revenue Funds</i>	<u>309,219</u>
 <b>Debt Service Fund:</b>	
Bond Retirement	30,781
 Total	 <u><u>\$839,374</u></u>



**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

**Note 9 - Interfund Transactions**

Interfund balances at December 31, 2002, consist of the following individual fund receivables and payables:

Fund Type/Fund	Interfund Receivable	Interfund Payable	Due From Other Funds	Due to Other Funds
<b>General Fund</b>	\$ 41,946	\$ -	\$ 16,318	\$ -
<b>Special Revenue Funds</b>				
Enforcement and Education	-	-	120	-
Indigent Drivers	-	-	138	-
<i>Total Special Revenue Funds</i>	<u>-</u>	<u>-</u>	<u>258</u>	<u>-</u>
<b>Capital Projects Funds</b>				
Madison Street Community Development	-	41,946	-	-
Municipal Court Capital Improvement	-	-	4,697	-
<b>Agency Funds</b>				
Ohio State Police Fines	-	-	3,380	-
Court Agency	-	-	-	24,653
<i>Total All Funds</i>	<u>\$ 41,946</u>	<u>\$ 41,946</u>	<u>\$ 24,653</u>	<u>\$ 24,653</u>

**Note 10 - Contingencies**

**A. Litigation**

The City of Conneaut is a party to legal proceedings seeking damages. 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. Grants**

The City receives financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies or their representative. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the City at December 31, 2002.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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**Note 11 - Fixed Assets**

A summary of the enterprise funds' fixed assets at December 31, 2002 is as follows:

Land	\$ 12,860
Buildings	645,906
Equipment	3,895,554
Vehicles	460,757
Infrastructure	7,815,267
Construction in Progress	537,128
Total	<u>13,367,472</u>
Less: Accumulated Depreciation	<u>(3,273,482)</u>
Net Fixed Assets	<u>\$10,093,990</u>

Proprietary funds' fixed assets exclude water and sewer lines constructed prior to 1994.

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

	Balance 1/1/2002	Additions	Deductions	Balance 12/31/2002
Land	\$ 578,748	\$ -	\$ -	\$ 578,748
Buildings	1,682,860	22,462	-	1,705,322
Equipment	1,682,109	182,863	32,547	1,832,425
Furniture and Fixtures	20,352	7,745	-	28,097
Vehicles	3,628,082	49,270	-	3,677,352
Total	<u>\$7,592,151</u>	<u>\$262,340</u>	<u>\$ 32,547</u>	<u>\$7,821,944</u>

**Note 12 - Operating Lease**

The City has a five-year non-cancelable operating lease for a building requiring rent of \$700 monthly. Future minimum lease payments due under the non-cancelable lease are as follows at December 31, 2002:

2003	\$ 8,400
2004	8,400
2005	8,400
2006	<u>2,100</u>
	<u>\$ 27,300</u>

Rent expense totaled approximately \$8,400 in 2002.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

During 2002, the City had five different copier lease agreements in four departments. The required minimum lease payments were \$806 per month. In 2004, one of the copier leases has the option to buy for fair market value at the end of the lease. The other non-cancelable operating leases for equipment have a term of 3 years. Future minimum lease payments due under the non-cancelable lease are as follows at December 31, 2002:

2003	\$ 7,638
2004	<u>1,353</u>
	<u>\$ 8,991</u>

Equipment expense totaled approximately \$9,672 in 2002.

**Note 13 - Notes Payable**

The City's note activity for the year ended December 31, 2002 is as follows:

	Outstanding 1/1/2002	Additions	(Reductions)	Outstanding 12/31/2002
<i>General Fund:</i>				
Prison Land, 1.92%	220,000	200,000	(220,000)	200,000
Fire Truck, 2.61%	<u>119,000</u>	<u>100,000</u>	<u>(119,000)</u>	<u>100,000</u>
<i>Total General Fund</i>	<u>339,000</u>	<u>300,000</u>	<u>(339,000)</u>	<u>300,000</u>
 <i>Special Revenue Fund:</i>				
Street Equipment, 2.61%	380,000	300,000	(380,000)	300,000
Street Equipment, 2.33%	<u>-</u>	<u>88,500</u>	<u>-</u>	<u>88,500</u>
<i>Total Special Revenue Fund</i>	<u>380,000</u>	<u>388,500</u>	<u>(380,000)</u>	<u>388,500</u>
 <i>Capital Projects Funds:</i>				
Conneaut Port Authority, 2.61%	285,470	244,000	(285,470)	244,000
Conneaut Port Authority, 2.61%	<u>69,530</u>	<u>61,000</u>	<u>(69,530)</u>	<u>61,000</u>
<i>Total Capital Projects Funds</i>	<u>355,000</u>	<u>305,000</u>	<u>(355,000)</u>	<u>305,000</u>
 <i>Enterprise Fund:</i>				
Computers, Sewer Jet, 2.33%	<u>56,000</u>	<u>30,000</u>	<u>(56,000)</u>	<u>30,000</u>
<i>Total Notes</i>	<u>\$1,130,000</u>	<u>\$1,023,500</u>	<u>\$(1,130,000)</u>	<u>\$1,023,500</u>

All of the notes are backed by the full faith and credit of the City of Conneaut and mature within one year. The note liability is reflected in the funds that receive the proceeds. The notes are generally issued in anticipation of long-term bond financing and are refinanced until such bonds are issued.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

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**Note 14 - Long-Term Obligations**

The original issuance amounts for the City's long-term obligations are as follows:

	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Year of Maturity</u>
<b>General Long Term Obligations</b>			
<i>General Obligation Bonds</i>			
Broad Street Underpass	6.00%	\$ 1,200,000	2004
City Hall Annex	6.88	1,500,000	2011
Library	5.05	2,115,000	2018
<i>Special Assessment Loans:</i>			
East Conneaut Sewer Phase II	4.16	603,796	2016
East-West Gateway	4.80	554,029	2013
Gateway Phase II	4.80	87,255	2014
I-90 Sewer	3.98	167,329	2018
East Conneaut Sewer Phase III	3.50	679,445	2020
<b>Enterprise Funds</b>			
<i>Special Assessment Loans:</i>			
East Conneaut Sewer Phase II	4.16	201,266	2016
I-90 Sewer	3.98	94,123	2018
East Conneaut Sewer Phase III	3.50	132,997	2020
<i>Ohio Water Development Authority:</i>			
Wastewater Plant Improvement	5.25	853,796	2013
Wastewater Plant Improvement	9.06	557,110	2013
Wastewater	4.80	2,580,000	2011
Water III	4.35	493,815	2017
Dechlorination Project	4.12	89,144	2017
<i>Ohio Public Works Commission</i>			
East Conneaut Sewer Phase II	0.00	20,616	2006
Grove Street Project	0.00	66,000	2004
Wastewater Treatment Plant	0.00	123,926	2010
South Conneaut Water Tank	0.00	385,000	2021
<i>Note:</i>			
Prison Water Line	0.00	100,000	2006
<i>General Obligation Bond:</i>			
Water III	5.05	1,370,000	2018

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

Changes in long-term obligations of the City during 2001 were as follows:

	Outstanding 1/1/2002	Additions	Reductions	Outstanding 12/31/2002
<b>General Long Term Obligations</b>				
<b>General Obligation Bonds</b>				
1979 Broad Street Underpass	\$ 450,000	\$ -	\$ 150,000	\$ 300,000
1986 City Hall Annex	1,000,000	-	100,000	900,000
1998 Library	1,785,000	-	105,000	1,680,000
<i>Total Obligation Bonds</i>	<u>3,235,000</u>	<u>-</u>	<u>355,000</u>	<u>2,880,000</u>
<b>Special Assessment Obligations:</b>				
<i>OWDA Loans</i>				
1996 East Conneaut Sewer Phase II	553,027	-	28,124	524,903
1993 East-West Gateway	392,436	-	24,858	367,578
1993 Gateway Phase II	63,695	-	3,823	59,872
1998 I-90 Sewer	147,309	-	7,132	140,177
1999 East Conneaut Sewer Phase III	641,518	-	20,331	621,187
<i>Total OWDA Loans</i>	<u>1,797,985</u>	<u>-</u>	<u>84,268</u>	<u>1,713,717</u>
<i>Bonds - 1997 Janet/Geraldine Paving</i>	<u>22,000</u>	<u>-</u>	<u>22,000</u>	<u>-</u>
<i>Compensated Absences</i>	<u>688,427</u>	<u>10,527</u>	<u>23,055</u>	<u>675,899</u>
<b>Total General Long-Term Obligations</b>	<u>\$ 5,743,412</u>	<u>\$ 10,527</u>	<u>\$ 484,323</u>	<u>\$5,269,616</u>
<b>Enterprise Fund Obligations:</b>				
<b>Special Assessment OWDA Loans</b>				
1996 East Conneaut Sewer Phase II	\$ 183,093	\$ -	\$ 8,125	\$ 174,968
1998 I-90 Sewer	82,863	-	4,011	78,852
1999 East Conneaut Sewer Phase III	126,088	-	4,464	121,624
<i>Total Special Assessment OWDA Loans</i>	<u>392,044</u>	<u>-</u>	<u>16,600</u>	<u>375,444</u>
<b>OWDA Loans</b>				
1971 Wastewater Plant Improvement	465,857	-	28,802	437,055
1987 Wastewater Plant Improvement	406,877	-	20,130	386,747
1988 Wastewater	1,697,066	-	135,824	1,561,242
1995 Water III	454,311	-	21,064	433,247
1997 Dechlorination Project	71,675	-	3,368	68,307
<i>Total OWDA Loans</i>	<u>3,095,786</u>	<u>-</u>	<u>209,188</u>	<u>2,886,598</u>
<i>Total OWDA Obligations</i>	<u>3,487,830</u>	<u>-</u>	<u>225,788</u>	<u>3,262,042</u>
<b>OPWC Loans</b>				
1997 East Conneaut Sewer Phase II	6,945	-	1,543	5,402
1992 Grove Street Project	13,200	-	6,600	6,600
1992 Wastewater Treatment Plant	105,337	-	12,394	92,943
2000 South Conneaut Water Tank	365,750	-	19,250	346,500

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
For the Year Ended December 31, 2002

<i>Total OPWC Loans</i>	491,232	-	39,787	451,445
<i>Notes Payable - 1997 Prison Water Line</i>	60,000	-	10,000	50,000
<b>General Obligation Bonds - 1998 Water III</b>	1,162,002	(123)	70,000	1,091,879
Unamortized Premium	(2,002)	123	-	(1,879)
<i>Total Bonds</i>	1,160,000	-	70,000	1,090,000
<b>Compensated Absences</b>	360,158	48,524	11,409	397,273
<b>Total Enterprise Fund Obligations</b>	<u>\$ 5,559,220</u>	<u>\$ 48,524</u>	<u>\$ 356,984</u>	<u>\$ 5,250,760</u>
<b>Total Long-term Obligations</b>	<u>\$11,302,632</u>	<u>\$ 59,051</u>	<u>\$ 841,307</u>	<u>\$10,520,376</u>

General obligation bonds are direct obligations of the City and will be paid from the general bond retirement debt service fund using property tax revenues, and from the water fund using operating revenues. Special assessment debt will be paid from the proceeds of special assessments levied against benefited property owners. In the event that a property owner would fail to pay the assessment, payment would be made by the City. The OWDA loans will be paid partly with special assessments levied against benefited property owners as well as user charges from the appropriate enterprise fund. The OPWC loans in the enterprise funds will be paid with user charges. Compensated absences reported in the "compensated absences payable" account will be paid from the fund from which the employees' salaries are paid. The notes will be paid with charges for service revenues from the water and sewer enterprise funds.

The City's overall legal debt margin was \$14,757,524 at December 31, 2002. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2002 are as follows:

	General Obligation Bonds	Special Assessment Loans	Ohio Water Development Authority	Ohio Public Works Commission	Note Payable Ashtabula County
2003	\$ 639,475	\$ 160,724	\$ 407,777	\$ 39,786	\$ 10,000
2004	615,725	160,724	407,777	33,186	10,000
2005	441,888	160,724	407,777	33,186	10,000
2006	427,050	160,724	407,777	32,415	10,000
2007	412,214	160,724	407,777	31,642	10,000
2008-2012	1,733,040	803,626	1,823,210	127,228	-
2013-2017	1,023,699	556,205	479,284	96,250	-
2018-2021	178,586	154,186	38,579	57,750	-
Total	5,471,677	2,317,637	4,379,958	451,445	50,000
Less: Interest	(1,501,677)	(603,920)	(1,117,916)	-	-
Total Principal	<u>\$3,970,000</u>	<u>\$1,713,717</u>	<u>\$ 3,262,042</u>	<u>\$ 451,445</u>	<u>\$ 50,000</u>

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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**Note 15 – Compensated Absences**

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn vacation and sick leave at different rates, which are also affected by length of service. Vacation and sick leave is accrued without limit. Upon retirement, an employee can be paid for one quarter of his/her accumulated sick hours, but if the employee has ten or more years of service with the City, paid sick time is limited to a maximum number of hours set by each department. However, in no case shall any City employee in any department be paid for more than 1,200 hours of accumulated sick leave. There is no limitation on paying accrued vacation, so an employee may be paid for the entire amount of vacation earned but not yet used.

As of December 31, 2002, the liability for unpaid compensated absences was \$1,080,402 for the entire City.

**Note 16- Defined Benefit Pension Plans**

***A. Public Employees Retirement System***

All full-time employees, other than non-administrative full-time police officers and firefighters, participate in the Ohio Public Employee Retirement System (OPERS), a cost-sharing multiple-employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report which may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling (614) 466-2085 or 1-800-222-PERS (7377).

Plan members are required to contribute 8.5 percent of their annual covered salary (for full-time employees, 4 percent is "picked up" by the City and 4.5 percent is contributed by the member) to fund pension obligations. The 2002 employer pension contribution rate for the City was 8.55 percent of covered payroll. Contributions are authorized by State statute and rates are determined actuarially. The City's required contribution to OPERS for the years ended December 31, 2002, 2001 and 2000 were \$299,752, \$306,069 and \$207,162, respectively. The full amount has been contributed for 2001 and 2000. 88.74 percent has been contributed for 2002 with the remainder being reported as a fund liability.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to the OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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Police and firefighters are required to contribute 10 percent of their annual covered salary (4 percent is "picked up" by the City and 6 percent is contributed by the member) to fund pension obligations and the City was required to contribute 11.75 percent for police and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F were \$128,600 and \$96,493 for the year ended December 31, 2002, \$130,670 and \$98,243 for the year ended December 31, 2001, \$123,877 and \$92,585 for the year ended December 31, 2000. The full amount has been contributed for 2001 and 2000. 74.91 percent and 74.95 percent, respectively, have been contributed for 2002 with the remainder being reported as a fund liability.

**Note 17 - Postretirement Benefit Plans**

***A. Ohio Public Employees Retirement System***

The Ohio Public Employees Retirement System (OPERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postretirement health care based on authority granted by State statute. The 2002 employer contribution rate for local employers was 13.55 percent of covered payroll; 5.0 percent was the portion that was used to fund health care for 2002.

Benefits are advance-funded using the entry age normal actuarial cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2001, include a rate of return on investments of 8.0 percent, an annual increase in active employee total payroll of 4.0 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .5 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.0 percent annually. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Assets are adjusted annually to reflect 25 percent of unrealized market appreciation or depreciation on investment assets.

The number of active contributing participants was 402,041. The City's actual contributions for 2002, which were used to fund postemployment benefits were \$175,294. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2001, (the latest information available) were \$11.6 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$16.4 billion and \$4.8 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2004, with no prior service credit accumulated toward health care coverage. Choices, as the name suggest, will incorporate a cafeteria approach,



**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year “cliff” eligibility standard for the present Plan.

The benefit recipient will be free to select the option that best meets their needs. Recipients will fund health care costs in excess of their monthly health care benefit. The Plan will also offer a spending account feature, enabling the benefit recipient to apply their allowance toward specific medical expenses, much like a Medical Spending Account.

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

The OP&F 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 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund’s board of trustees to provide health care coverage and states that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5 percent of covered payroll and the total firefighter employer contribution rate is 24 percent of covered payroll. Health care funding and accounting is on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50 percent and 7.75 percent of covered payroll in 2001 and 2002, respectively. 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 City's contributions for 2002 that were used to pay postemployment benefits for police and firefighters were \$84,822 and \$46,020, respectively. The OP&F's total health care expense for the year ending December 31, 2001 (the date of the last actuarial valuation available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001 (the latest information available) is 13,174 for police and 10,239 for firefighters.

**Note 18 - Contractual Commitments**

The City had the following outstanding contractual commitments as of December 31, 2002:

	<u>Amount</u>
Chivers Construction	\$ 134,324
Snavelly Development	137,449
C.T. Consultants	66,482
Koski Construction	<u>2,835</u>
	<u>\$ 341,090</u>

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

**Note 19 - Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2002, the City entered into contracts for various types of insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Coverage</u>	<u>Deductible</u>
Love Insurance,	General Liability	\$ 2,000,000	\$ -
Ohio Government	Law Enforcement Liability	2,000,000	5,000
Risk Management	Public Officials Liability	2,000,000	5,000
Plan	Business Auto	2,000,000	
	Comprehensive		250
	Collision, Fire & Ambulance: Up to declared value		250
	Collision, other: Actual cash value		250

There were no significant reductions from prior years and claims have not exceeded insurance coverage in any of the last three years.

**Note 20 - Segment Information for Enterprise Funds**

The City maintains two enterprise funds. The Sewer Fund provides wastewater treatment services and the Water Fund provides water distribution to the City. Segment information is summarized for these operations as of and for the year ended December 31, 2002 is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>	<u>Total</u>
Operating Revenues	\$1,566,703	\$1,461,387	\$3,028,090
Depreciation Expense	181,804	139,678	321,482
Operating Income (Loss)	204,283	(41,869)	162,414
Interest	1,099	2,599	3,698
Net Income (Loss)	514,172	(92,447)	421,725
Property, Plant & Equipment:			
Additions	475,777	48,011	523,788
Deletions	-	4,171	4,171
Loss on the Disposal of Fixed Assets	-	(1,988)	(1,988)
Net Working Capital	79,816	105,124	184,940
Total Assets	5,829,203	5,110,064	10,939,267
Long-Term Liabilities	2,984,535	1,941,711	4,926,246
Total Equity	2,499,252	2,853,432	5,352,684
Encumbrances	11,860	17,189	29,049

**City of Conneaut, Ohio**  
*Notes to The General-Purpose Financial Statements*  
*For the Year Ended December 31, 2002*

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**Note 21 - Related Party Transactions**

The Conneaut Port Authority, a component unit of the City of Conneaut, owes the City \$305,000 as of December 31, 2002. The City has a note payable in the same amount. During 2002, the Port Authority paid the City \$57,961, the amount of principal and interest on the note.

**City of Conneaut, Ohio**  
*Schedule of Expenditures of Federal Awards*  
*For the Year Ended December 31, 2002*

Federal Grantor/ Pass Through Grantor Program Title	CFDA Number	Pass Through Entity Number	Disbursements
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
<i>Passed through Ohio Department of Development:</i>			
Community Development Block Grants – State's Program:			
CHIP - Rental Rehab.	14.228	A-C-00-107-1	35,429
Water and Sanitary Sewer	14.228	A-W-99-107-1	10,523
Formula Allocation Program	14.228	A-F-01-107-1	85,000
Formula Allocation Program	14.228	A-F-00-107-1	77,500
CHIP – Rental Rehab.	14.228	N/A	5,732
Subtotal passed through programs			<u>214,184</u>
Community Development Block Grants - Small Cities Program:			
Revolving Loan Funds (Note B)	14.219	N/A	169,650
Home Investment Partnership Program	14.239	A-C-00-107-2	<u>167,998</u>
Total passed through Ohio Department of Development			<u>551,832</u>
Total U.S. Department of Housing and Urban Development			<u>551,832</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Public Safety Partnerships and Community Policing Grants (COPS)	16.710		<u>36,853</u>
Total Expenditures of Federal Awards			<u>\$ 588,685</u>

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

**City of Conneaut, Ohio**  
*Notes to the Schedule of Expenditures of Federal Awards*  
*For the Year Ended December 31, 2002*

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**NOTE A – Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards summarizes activity of the City's federal grant programs. The schedule has been prepared on the cash basis of accounting.

**NOTE B – Community Development Block Grant (CDBG) Revolving Loan Funds**

The City of Conneaut has outstanding federal loan balances that are revolving loans provided through the HUD Community Development Block Grants. In accordance with OMB Circular A-133 the outstanding loan balances of prior loans as of December 31, 2002, were included in federal disbursements in determining the audit requirements for major and nonmajor programs and audit coverage. The total of the loan balances was \$207,608, \$15,104 for loans under CFDA No. 14.228 and \$192,504 under CFDA No. 14.219.



REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of Council  
City of Conneaut, Ohio

We have audited the financial statements of the City of Conneaut, Ohio, as of and for the year ended December 31, 2002, and have issued our report thereon dated June 30, 2003. In our report our opinion was qualified because we were unable to obtain audited financial statements supporting the financial activities of the Conneaut Port Authority, and the City does not have a complete schedule of infrastructure fixed assets and related depreciation in the enterprise funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Conneaut's general-purpose 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 of Conneaut in a separate letter dated June 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Conneaut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general-purpose 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 general-purpose 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.

Members of Council  
City of Conneaut, Ohio  
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial  
Statements Performed in Accordance with *Government Auditing Standards*  
Page 2

However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated June 30, 2003.

This report is intended for the information of Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*S. R. Snodgrass, A.C.*

Ashtabula, Ohio  
June 30, 2003



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

Members of Council  
City of Conneaut, Ohio

Compliance

We have audited the compliance of the City of Conneaut, Ohio, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The City of Conneaut's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Conneaut's management. Our responsibility is to express an opinion on the City of Conneaut's compliance based on our audit.

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

As described in item 2002-1 in the accompanying schedule of findings, the City of Conneaut did not comply with the requirements regarding cash management that are applicable to its housing grants. Compliance with such requirements is necessary, in our opinion, for the City of Conneaut to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Conneaut complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002.



Internal Control Over Compliance

The management of the City of Conneaut is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Conneaut's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operations that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Conneaut's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings as 2002-1.

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 noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of Council, management and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

*S. R. Snodgrass, A.C.*

Ashtabula, Ohio  
June 30, 2003

**City of Conneaut, Ohio**  
Schedule of Findings  
For The Year Ended December 31, 2002

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Section I – Summary of Auditor’s Results

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*Financial Statements*

Type of auditor’s report issued: **Qualified**

Internal control over financial reporting:

- Material weakness(es) identified?                          yes      X  no
- Reportable condition(s) identified  
that are not considered to be  
material weaknesses?                          yes      X  none reported

Noncompliance material to financial  
statements noted?                          yes      X  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?                          yes      X  no
- Reportable condition(s) identified  
that are not considered to be material  
weakness(es)?                      X  yes          no

Type of auditor’s report issued on compliance for major programs: **Qualified**

Any audit findings disclosed that are  
required to be reported in accordance  
with section 510(a) of Circular A-133?                      X  yes          no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
14.228	CDBG – States Program
14.239	Home Investment Partnership Program
14.219	CDBG – Small Cities Program

Dollar threshold used to distinguish  
between type A and B programs:                      \$ 300,000  

Auditee qualified as low-risk auditee?                          yes      X  no

**City of Conneaut, Ohio**  
Schedule of Findings (Continued)  
For The Year Ended December 31, 2002

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Section II – Financial Statement Findings

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No findings to be reported.

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Section III – Federal Award Findings

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U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CFDA 14.228 CDBG States program – CHIP Rental Rehab  
CFDA 14.239 Home Investment Partnership Program

Compliance and Control -

**2002-1 Excess Cash**

Statement of Condition: The City had excess cash on hand for these programs. Six separate instances were found where cash on hand averaged over \$5,000 for weeks at a time.

Criteria: The OHCP Housing Rehabilitation Handbook requires the grantee to develop a cash management system to ensure compliance with the Fifteen Day Rule relating to disbursement of funds. This rule state that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt.

Cause of Condition: The funds were drawn in anticipation of paying contracts being completed but they were not completed in the estimated time.

Recommendation: The City should use other funds and request the drawdowns on a reimbursement basis.

Response: The City agrees with the finding and has considered other alternatives for fiscal year 2003.

**City of Conneaut, Ohio**  
Summary Schedule of Prior Audit Findings  
For The Year Ended December 31, 2002

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Finding Number	Finding Summary	Fully Corrected
2001-1	Non-compliance with fifteen-day rule relating to disbursement of funds	No



**Auditor of State  
Betty Montgomery**

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Facsimile 614-466-4490

**CITY OF CONNEAUT**

**ASHTABULA 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  
SEPTEMBER 25, 2003**