



**Auditor of State
Betty Montgomery**

City of Conneaut, Ohio
Basic Financial Statements
For the Year Ended December 31, 2003
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANT'S REPORT

City of Conneaut
Ashtabula County
294 Main Street
Conneaut, Ohio 44030

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conneaut, Ashtabula County, (the City), as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As more fully discussed in Note 2 to the financial statements, management has not recorded certain infrastructure assets acquired or replaced prior to 1995 in the business type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those infrastructure assets be capitalized and depreciated, which would increase the assets, net assets and expenses of the business type activities. We cannot reasonably determine the amount by which this departure would affect the assets, net assets, and expenses of the business type activities or the respective changes in financial position and cash flows of the City's enterprise funds.

In our opinion, except for the effects on the financial statements of the omissions described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conneaut, Ashtabula County, as of December 31, 2003, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General, Street, Construction, Maintenance and Repair Funds thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, during the year ended December 31, 2003, the City implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements- and Management's Discussion and Analysis- for State and Local Governments*.

Voinovich Government Center / 242 Federal Plaza W. / Suite 302 / Youngstown, OH 44503
Telephone: (330) 797-9900 (800) 443-9271 Fax: (330) 797-9949
www.auditor.state.oh.us

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2004, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit

Management's Discussion and Analysis is not required part of the basic financial statements, but is supplementary information the Governmental Accounting Standards Board requires. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to form opinions on the financial statements that collectively comprise the City's basic financial statements. The federal awards expenditure schedule is 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 basic financial statements. We subjected the federal awards expenditure schedule to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Betty Montgomery
Auditor of State

July 30, 2004

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

The management's discussion and analysis for the City of Conneaut's financial statements provides an overall review of the financial activity of the City for the twelve months ended December 31, 2003. The intent of this discussion and analysis is to provide a narrative that describes the City's performance as a whole; readers are encouraged to consider the information presented here in conjunction with the additional information contained in the financial statements and the notes thereof.

Financial Highlights

Financial highlights for 2003 are as follows:

- Total Net Assets of the City increased \$326,394 or a 4.03 percent increase from 2002.
- Total Capital Assets increased by \$288,218 or an increase of 2.28 percent from 2002.
- Total Equity in Pooled Cash and Cash Equivalents decreased by \$111,232, or a decrease of 4.22 percent from 2003.
- Total Outstanding Debt decreased by \$705,055. Principal outstanding on the City's general obligation bonds decreased by \$425,000 and OWDA principal decreased by \$314,012.

Using this Annual Financial Report

This report is designed to allow the reader to look at the financial activities of the City of Conneaut as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Activities provide information from a summary perspective showing the effects of the operations for the year 2003 and how they affected the operations of the City as a whole.

Reporting the City of Conneaut as a Whole

Statement of Net Assets and Statement of Activities

The Statement of Net Assets and the Statement of Activities provide summary information concerning the financial position and operations of the City as an entity. They provide a good resource for an overall evaluation of the City's financial performance "on one page." These statements include all non-fiduciary assets and liabilities using the accrual basis of accounting. This method takes into account all revenues when they are earned and all expenses when they are incurred. These transactions are booked when they occur and not when the actual cash is received for revenues or when invoices are paid for expenses.

These two statements report the City's net assets and changes in those assets. The change in net assets is important since it is an indication of whether the financial position of the City is improving or declining. However, to properly evaluate the operation of the City, certain non-cash items should be taken into consideration. These items would include the current economic situation as a whole, the current tax base for the City and the age and condition of the City buildings and infrastructure.

City of Conneaut, Ohio
Management's Discussion and Analysis
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In the Statement of Net Assets and the Statement of Activities, the City is divided into two major activities:

- **Governmental Activities** - Most of the City's programs and services are reported here, including general government, security of persons and property, transportation, public health services, community environment, basic utility services, and leisure time activities.
- **Business-Type Activities** - These services are provided on a fee basis to recover all of the expenses of the goods or services provided. The City's business-type activities are water and sewer.

Reporting on the Most Significant Funds of the City of Conneaut

Fund Financial Statements

The analysis of the City's major funds begins on page 8. The fund financial reports give a detailed report of the activities within the funds. The City currently has thirty-seven funds. These funds are in existence to provide a multitude of services to the citizens of Conneaut. Each fund is in some ways an entity unto itself. Each fund has a designed revenue stream and restricted uses for the monies within the fund.

In this report, the focus is on six major funds, the general fund, the street construction maintenance and repair fund, the general obligation bond retirement fund, the special assessment bond retirement fund, the water fund and the sewer fund.

Governmental Funds All of the City's major activities (excluding the Water and Sewer funds) are reported in the governmental funds. This report shows how monies flow into and out of these funds and also shows what balances are available for future expenditures. The accounting method used to report this activity is the modified accrual method. This method reports cash and like-cash items that can be converted into cash. This shows what level of financial resources is available or will be available to provide the services that the general government provides in the near future. These services include police and fire protection, as well as the improving and maintaining the City's streets, parks, cemeteries, and City Hall. The relationship between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the government funds is reconciled in the financial statements.

Proprietary Funds Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

The City of Conneaut as a Whole

The Statement of Net Assets provides an overall view of the City. Table 1 shows a summary of the City's net assets for 2003 as they compare to 2002.

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
Unaudited

(Table 1)
 Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Assets						
Current and Other Assets	\$8,338,927	\$8,561,669	\$661,553	\$845,276	\$9,000,480	\$9,406,945
Capital Assets, Net	<u>2,771,935</u>	<u>2,507,598</u>	<u>10,130,795</u>	<u>10,106,914</u>	<u>12,902,730</u>	<u>12,614,512</u>
<i>Total Assets</i>	<u>11,110,862</u>	<u>11,069,267</u>	<u>10,792,348</u>	<u>10,952,190</u>	<u>21,903,210</u>	<u>22,021,457</u>
Liabilities						
Current and Other Liabilities	2,265,364	2,019,152	551,495	619,173	2,816,859	2,638,325
Long-Term Liabilities:						
Due Within One Year	447,976	542,984	461,595	464,602	909,571	1,007,586
Due in More than One Year	<u>5,187,746</u>	<u>5,525,451</u>	<u>4,562,824</u>	<u>4,750,279</u>	<u>9,750,570</u>	<u>10,275,730</u>
<i>Total Liabilities</i>	<u>7,901,086</u>	<u>8,087,587</u>	<u>5,575,914</u>	<u>5,834,054</u>	<u>13,477,000</u>	<u>13,921,641</u>
Net Assets						
Invested in Capital Assets						
Net of Debt	1,001,435	819,098	5,338,995	5,599,211	6,340,430	6,418,309
Restricted:						
Capital Projects	440,452	389,896	0	0	440,452	389,896
Debt Service	1,723,937	1,259,673	0	0	1,723,937	1,259,673
Renewal and Replacement	0	0	0	0	0	0
Other Purposes	1,336,163	1,295,364	0	0	1,336,163	1,295,364
Unrestricted (Deficit)	<u>(1,292,211)</u>	<u>(782,351)</u>	<u>(122,561)</u>	<u>(481,075)</u>	<u>(1,414,772)</u>	<u>(1,263,426)</u>
<i>Total Net Assets</i>	<u>\$3,209,776</u>	<u>\$2,981,680</u>	<u>\$5,216,434</u>	<u>\$5,118,136</u>	<u>\$8,426,210</u>	<u>\$8,099,816</u>

The total net assets of the City, including both governmental and business-type activities, is \$8,426,210, which is an increase of \$326,394 from last year. Approximately 82 percent of the City's net assets are investments in capital assets, such as machinery and equipment, buildings, improvements, infrastructure, and vehicles, less any debt issued to purchase these assets. Debt service on the debt issued to acquire assets in the governmental-type activities is paid from income tax, real estate and personal property tax, gas tax, interest income, fees, licenses, permits and other various revenue sources. Outstanding debt for the City was reduced by more than \$400,000 during 2003. In the business-type activities, user fees are the primary revenue source for the repayment of debt.

Although net assets in the governmental activities increased by \$228,096, current and other assets decreased by \$222,742. The most significant decreases occurred in special assessments receivable and then in equity in pooled cash and cash equivalents. The decrease in special assessments was due to a reduction in the number of years of outstanding receivables, and the decrease in cash was due to a greater reliance on available resources to support operations. A decrease in liabilities by \$186,501 in governmental activities was due primarily to the reduction in debt principal during 2003 offset by the issuance of note debt of \$200,000 for the replacement of the storm sewer line. Intergovernmental payables increased by \$49,479, due to the increase in required pension contributions.

Business activities experienced a \$98,298 increase in net assets, mainly due to an overall decrease in liabilities. Contracts payable decreased by \$218,492, primarily due to the payment of outstanding contractual commitments to Chivers Construction and Snavelly Development. These contractors were responsible for the replacement of Chestnut Street sewer line and the Liberty Street waterline. Notes payable had a net increase of \$160,000 from the issuance of a \$240,000 note for the pre-construction engineering and upgrades at the Wastewater Treatment Plant.

City of Conneaut, Ohio
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Table 2 shows the changes in net assets for 2003. Since this is the first year the City has prepared financial statements following GASB Statement No. 34, revenue and expense comparisons to 2002 are not available. In future years, when prior information is available, a comparative analysis of government-wide data will be presented.

(Table 2)
 Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
Revenues			
Program Revenues			
Charges for Services	\$717,085	\$3,104,577	\$3,821,662
Operating Grants and Contributions	870,386	0	870,386
Capital Grants and Contributions	223,234	147,841	371,075
<i>Total Program Revenues</i>	<u>1,810,705</u>	<u>3,252,418</u>	<u>5,063,123</u>
General Revenues			
Property Taxes	1,396,824	0	1,396,824
Municipal Income Taxes	2,856,609	0	2,856,609
Grants and Entitlements not Restricted to Specific Programs	1,015,299	0	1,015,299
Investment Earnings	20,472	0	20,472
Gain on Sale of Capital Assets	8,277	0	8,277
Miscellaneous	55,158	17,659	72,817
<i>Total General Revenues</i>	<u>5,352,639</u>	<u>17,659</u>	<u>5,370,298</u>
<i>Total Revenues</i>	<u>7,163,344</u>	<u>3,270,077</u>	<u>10,433,421</u>
Program Expenses			
General Government	998,850	0	998,850
Security of Persons and Property	3,097,076	0	3,097,076
Public Health Services	353,790	0	353,790
Leisure Time Activities	100,480	0	100,480
Community Development	437,292	0	437,292
Transportation	1,677,028	0	1,677,028
Interest and Fiscal Charges	259,709	0	259,709
Water	0	1,560,300	1,560,300
Sewer	0	1,622,502	1,622,502
<i>Total Program Expenses</i>	<u>6,924,225</u>	<u>3,182,802</u>	<u>10,107,027</u>
<i>Increase in Net Assets</i>	239,119	87,275	326,394
Transfers	(11,023)	11,023	0
Net Assets Beginning of Year	<u>2,981,680</u>	<u>5,118,136</u>	<u>8,099,816</u>
Net Assets End of Year	<u>\$3,209,776</u>	<u>\$5,216,434</u>	<u>\$8,426,210</u>

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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Governmental Activities

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. The income tax rate is 1.65 percent and generated approximately \$2,857,000 in revenue for 2003, accounting for approximately 40 percent of governmental activities revenue. The revenue collected from the income tax was receipted into the following funds: 68.15 percent went to the general fund, 28.38 percent to the street construction, maintenance and repair special revenue fund, 1.02 percent to the street lighting special revenue fund, .87 percent to the recreation special revenue fund and 1.58 percent to the capital improvement capital projects fund. Unrestricted State shared revenues or local government funds for 2003 was \$1,015,299 and represent about 14 percent of governmental activities revenue.

Income tax collections for 2003 were 2.30 percent lower than 2002. This decrease was due to the reduction in employment within the City, and is a reflection of the National and State economies. The City is becoming much more aggressive in the pursuit of delinquent income tax payers. A private collection agency is now being utilized to collect delinquent funds due the City, and revenue from these collections is averaging over \$3,000 per month.

Local government funding has remained stagnant for the past two years. In prior years, the City could rely on annual increases of around 3 percent. However, due to a decline in the economy, State sales, income, and other taxes have decreased which has negatively impacted our share of local government funds.

Over 45 percent of governmental activities expenditures are allocated to the police and fire departments. The police department employs twenty officers, two full-time correction officers, four full-time dispatchers, one full-time administrative assistant, and several part-time employees. The fire department has twelve full-time positions, and numerous part-time personnel.

The City's Street Department accounted for approximately 24 percent of the expenses in the governmental activities or about \$1.7 million dollars. The street department has twenty employees, including three mechanics, fourteen equipment operators, two managers, and one full-time administrative assistant.

Business-Type Activities

The City operates two business-type activities: the water and sewer treatment facilities. The water and sewer plants generated revenues of \$1,607,215 and \$1,515,021, respectively, while expenses were \$1,559,978 and \$1,622,147, respectively. In 2003, the wastewater plant served 4,141 customers and the water plant provided water to 5,056 customers. Approximately thirty-two million gallons of water and wastewater are billed and processed each month.

The City's Funds

Information about the City's governmental funds begins on page 16. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$7,264,459 and expenditures of \$8,338,354. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2003
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Information about the Proprietary Funds starts on page 22. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$3,122,236, which exceeded operating expenses of \$2,965,087 by \$157,149 or 5 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

General Fund Budgeting Highlights

Budgeting is prescribed by the Ohio Revised Code. Essentially the budget is the City's appropriations which are restricted by the amounts of anticipated revenues certified by the Budget Commission in accordance with the Revised Code. In 2003 estimated revenues were \$3,732,415 where as actual revenues received were \$3,645,183, which is \$87,232 lower than estimated revenues. Additionally, members of council passed appropriations of \$4,377,966. Actual expenditures were \$3,970,610, which is \$407,356 lower than appropriations.

Capital Assets and Debt Administration

Capital Assets

(Table 3)
 Capital Assets at December 31,
 (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$580,048	\$580,048	\$12,860	\$12,860	\$592,908	\$592,908
Construction in Progress	220,197	0	0	537,128	220,197	537,128
Buildings and Improvements	687,164	732,738	51,387	55,469	738,551	788,207
Equipment	782,277	477,805	2,048,849	2,167,535	2,831,126	2,645,340
Vehicles	427,691	644,199	82,518	106,864	510,209	751,063
Furniture and Fixtures	10,327	11,665	0	0	10,327	11,665
Infrastructure						
Traffic Signals	64,231	61,143	0	0	64,231	61,143
Water and Sewer Lines	0	0	7,935,181	7,227,058	7,935,181	7,227,058
Total	\$2,771,935	\$2,507,598	\$10,130,795	\$10,106,914	\$12,902,730	\$12,614,512

Total capital assets (net of depreciation) for the governmental activities were \$2,771,935, which was a \$264,337 increase from the prior year. The largest increases occurred in construction in progress and equipment. The major project in progress was the construction of the Madison Street Storm Sewer, and large equipment acquisitions included a police cruiser, an armored personnel carrier, and a fire trainer. Many assets were sold at the City auction, including two police cruisers, a street grader, and a dump truck.

Total capital assets (net of depreciation) for the business activities were \$10,130,795. Three major infrastructure projects were added to capital assets: the Liberty Street waterline at \$165,636, the Chestnut Street sanitary sewer replacement at \$161,975, and the Madison Street sanitary sewer replacement at \$519,807. All of these projects were primarily funded with Issue II grants, loans, and community development block grant assistance. The remaining financial contribution was provided by City funds.

City of Conneaut, Ohio
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Debt

The City had \$10,658,385 in outstanding debt, which is \$704,932 less than last year. This debt is comprised of General Obligation Bonds, OPWC and OWDA loans, notes payable, and compensated absences.

(Table 4)
 Outstanding Debt at Year End

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$2,525,000	\$2,880,000	\$1,020,000	\$1,090,000	\$3,545,000	\$3,970,000
OPWC Loans	1,634,187	1,711,806	530,142	451,446	2,164,329	2,163,252
OWDA Loans	0	0	3,039,770	3,276,163	3,039,770	3,276,163
Notes Payable	730,500	793,500	40,000	80,000	770,500	873,500
Compensated Absences	746,035	683,129	392,751	397,273	1,138,786	1,080,402
Total	\$5,635,722	\$6,068,435	\$5,022,663	\$5,294,882	\$10,658,385	\$11,363,317

The four General Obligation Bonds outstanding at the end of the year were the Broad Street Underpass at \$150,000, the City Hall Annex at \$800,000, the Library at \$1,575,000, and the Water III Improvement at \$1,020,000. All of the interest and principal on these General Obligation Bonds are paid from real estate taxes, except for the Water III bond, which is paid from user fees.

Special assessment bonds consists of various sewer projects. The debt service on these bonds is paid from real estate tax assessments on those property owners who benefited from the improvements.

There are four OWPC and ten OWDA loans, all of which are being funded by special assessments and water and sewer user fees. Total principal outstanding is \$3,569,912.

Compensated absences as of December 31, 2003 were \$1,138,786, up by \$58,384 from the prior year. This was due to accrual of additional sick and vacation time by the City's full-time employees.

Current Financial Issues

The City is embarking on a major improvement project at the wastewater facility. Because the wastewater plant is very close to exceeding capacity, plans are in place to install a new 600,000-gallon sludge holding tank, as well as an upgrade to three sludge digesters. This project will cost approximately \$3,000,000, with the funding being obtained through loans from the Ohio Water Development Authority. The interest expense on this loan will approach \$1,000,000 over the life of the loan, however, the interest paid will be used by the Ohio Department of Natural Resources and the Friends of Conneaut Creek to purchase property and easements along Conneaut Creek to help preserve critical water habitat.

The City is aggressively pursuing economic development by encouraging development of about 100 acres of land located in the East Side Industrial Park. This will require an extensive investment in infrastructure to make that land attractive to businesses willing to locate their facilities in the industrial park.

With new union contracts finalized, the City will need to fund the proposed wage increases in 2005 and 2006. During this two-year period, it will cost in excess of \$450,000, with the general fund experiencing the greatest financial impact of around \$280,000. While the City's financial condition in 2003 was

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relatively stable, we have experienced a substantial decrease in general fund unencumbered fund balance over the past two years. In 2001, the City's general fund unencumbered fund balance exceeded \$1,000,000, in contrast to the 2003 ending balance of \$440,468, resulting in a decrease of more than \$500,000. The City continues to explore new ways to improve efficiency, cut costs, and increase revenue.

On behalf of the City of Conneaut, we sincerely appreciate the guidance and assistance from the staff of the Auditor of State. They are consummate professionals and an invaluable resource to our City, and to many other cities across the State of Ohio.

Contacting the City's Finance Department

This report is designed to provide the reader with a broad overview of the City's financial position, as well as a general understanding of the financial operations of the City. If you have any questions about this report or need any additional financial information, please contact John Williams, J.D., CPA, Finance Director, 294 Main Street, Conneaut, Ohio 44030, telephone 440-593-7416, or e-mail at connfinance@suite224.net.

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Basic Financial Statements

City of Conneaut, Ohio
Statement of Net Assets
December 31, 2003

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Conneaut Port Authority
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$2,355,414	\$277,392	\$2,632,806	\$105,585
Accounts Receivable	93,003	173,262	266,265	84,352
Loans Receivable	327,453	0	327,453	0
Intergovernmental Receivable	844,598	320	844,918	0
Prepaid Items	0	0	0	10,777
Materials and Supplies Inventory	82,190	107,308	189,498	2,258
Property Taxes Receivable	1,316,296	0	1,316,296	0
Municipal Income Taxes Receivable	967,431	0	967,431	0
Special Assessments Receivable	2,062,542	75,403	2,137,945	0
Due from Component Unit	290,000	0	290,000	0
Deferred Charges	0	27,868	27,868	0
Nondepreciable Capital Assets	800,245	12,860	813,105	269,786
Depreciable Capital Assets, Net	1,971,690	10,117,935	12,089,625	1,274,006
<i>Total Assets</i>	11,110,862	10,792,348	21,903,210	1,746,764
Liabilities				
Accounts Payable	89,957	29,926	119,883	71,826
Contracts Payable	139,820	44,715	184,535	40,445
Accrued Wages	158,966	52,860	211,826	407
Intergovernmental Payable	209,196	98,403	307,599	3,618
Accrued Interest Payable	57,618	85,591	143,209	2,565
Deferred Revenue	1,229,807	0	1,229,807	0
Notes Payable	380,000	240,000	620,000	0
Due to Primary Government	0	0	0	290,000
Long-Term Liabilities:				
Due Within One Year	447,976	461,595	909,571	0
Due In More Than One Year	5,187,746	4,562,824	9,750,570	0
<i>Total Liabilities</i>	7,901,086	5,575,914	13,477,000	408,861
Net Assets				
Invested in Capital Assets, Net of Related Debt	1,001,435	5,338,995	6,340,430	1,169,461
Restricted for:				
Capital Projects	440,452	0	440,452	0
Debt Service	1,723,937	0	1,723,937	0
Other Purposes	1,336,163	0	1,336,163	0
Unrestricted (Deficit)	(1,292,211)	(122,561)	(1,414,772)	168,442
<i>Total Net Assets</i>	\$3,209,776	\$5,216,434	\$8,426,210	\$1,337,903

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Activities
For the Year Ended December 31, 2003

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$998,850	\$173,490	\$10,310	\$5,803
Security of Persons and Property	3,097,076	419,527	19,143	0
Public Health Services	353,790	27,573	27,494	0
Leisure Time Activities	100,480	38,016	1,608	0
Community Development	437,292	54,662	237,914	215,639
Transportation	1,677,028	3,817	573,917	1,792
Interest and Fiscal Charges	259,709	0	0	0
<i>Total Governmental Activities</i>	<u>6,924,225</u>	<u>717,085</u>	<u>870,386</u>	<u>223,234</u>
Business-Type Activities:				
Water	1,560,300	1,604,060	0	9,938
Sewer	1,622,502	1,500,517	0	137,903
<i>Total Business-Type Activities</i>	<u>3,182,802</u>	<u>3,104,577</u>	<u>0</u>	<u>147,841</u>
<i>Total - Primary Government</i>	<u>\$10,107,027</u>	<u>\$3,821,662</u>	<u>\$870,386</u>	<u>\$371,075</u>
Component Unit				
Conneaut Port Authority	<u>\$279,123</u>	<u>\$266,648</u>	<u>\$0</u>	<u>\$171,283</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Other Purposes

Income Tax

 General Purposes

 Capital Outlay

 Other Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Gain on Sale of Capital Assets

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year (See Note 3)

Net Assets End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Unit
(\$809,247)	\$0	(\$809,247)	\$0
(2,658,406)	0	(2,658,406)	0
(298,723)	0	(298,723)	0
(60,856)	0	(60,856)	0
70,923	0	70,923	0
(1,097,502)	0	(1,097,502)	0
(259,709)	0	(259,709)	0
<u>(5,113,520)</u>	<u>0</u>	<u>(5,113,520)</u>	<u>0</u>
0	53,698	53,698	0
0	15,918	15,918	0
0	69,616	69,616	0
<u>(5,113,520)</u>	<u>69,616</u>	<u>(5,043,904)</u>	<u>0</u>
0	0	0	158,808
279,872	0	279,872	0
564,949	0	564,949	0
552,003	0	552,003	0
1,948,508	0	1,948,508	0
45,174	0	45,174	0
862,927	0	862,927	0
1,015,299	0	1,015,299	0
20,472	0	20,472	836
8,277	0	8,277	0
55,158	17,659	72,817	1,059
5,352,639	17,659	5,370,298	1,895
<u>(11,023)</u>	<u>11,023</u>	<u>0</u>	<u>0</u>
<u>5,341,616</u>	<u>28,682</u>	<u>5,370,298</u>	<u>1,895</u>
228,096	98,298	326,394	160,703
<u>2,981,680</u>	<u>5,118,136</u>	<u>8,099,816</u>	<u>1,177,200</u>
<u>\$3,209,776</u>	<u>\$5,216,434</u>	<u>\$8,426,210</u>	<u>\$1,337,903</u>

City of Conneaut, Ohio

Balance Sheet

Governmental Funds

December 31, 2003

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	Special Assessment Bond Retirement
Assets				
Equity in Pooled Cash and Cash Equivalents	\$511,807	\$48,943	\$691,568	\$327,974
Materials and Supplies Inventory	18,650	59,023	0	0
Accounts Receivable	17,968	0	0	0
Interfund Receivable	8,275	0	0	0
Intergovernmental Receivable	488,410	191,216	17,836	0
Property Tax Receivable	273,540	0	329,570	0
Municipal Income Tax Receivable	659,336	274,560	0	0
Loans Receivable	0	0	0	0
Due from Component Unit	0	0	0	0
Special Assessments Receivable	220,098	1,725	0	1,840,719
<i>Total Assets</i>	<u>\$2,198,084</u>	<u>\$575,467</u>	<u>\$1,038,974</u>	<u>\$2,168,693</u>
Liabilities				
Accounts Payable	\$40,384	\$32,190	\$0	\$0
Contracts Payable	73,785	22,694	0	0
Accrued Wages	109,535	43,685	0	0
Intergovernmental Payable	74,008	32,646	0	0
Accrued Interest Payable	1,822	0	0	0
Interfund Payable	0	0	0	0
Deferred Revenue	1,040,323	239,704	347,406	1,840,719
Notes Payable	380,000	0	0	0
<i>Total Liabilities</i>	<u>1,719,857</u>	<u>370,919</u>	<u>347,406</u>	<u>1,840,719</u>
Fund Balances				
Reserved for Encumbrances	37,759	18,832	0	0
Reserved for Loans Receivable	0	0	0	0
Unreserved				
Undesignated, Reported in:				
General Fund	440,468	0	0	0
Special Revenue Funds	0	185,716	0	0
Debt Service Funds	0	0	691,568	327,974
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances</i>	<u>478,227</u>	<u>204,548</u>	<u>691,568</u>	<u>327,974</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,198,084</u>	<u>\$575,467</u>	<u>\$1,038,974</u>	<u>\$2,168,693</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$2,985,322
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$775,122	\$2,355,414	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,771,935
4,517	82,190		
75,035	93,003		
0	8,275		
147,136	844,598		
713,186	1,316,296	Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
33,535	967,431	Intergovernmental	534,841
327,453	327,453	Income Taxes	368,887
290,000	290,000	Property and Other Taxes	86,489
0	2,062,542	Special Assessments	2,060,817
\$2,365,984	\$8,347,202	Charges for Services	93,003
		Total	3,144,037
\$17,383	\$89,957	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(55,796)
43,341	139,820		
5,746	158,966		
102,542	209,196	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
0	1,822	General Obligation Bonds	(2,525,000)
8,275	8,275	OWDA Loans Payable	(1,634,187)
905,692	4,373,844	Notes Payable	(730,500)
0	380,000	Compensated Absences	(746,035)
1,082,979	5,361,880	Total	(5,635,722)
11,419	68,010	<i>Net Assets of Governmental Activities</i>	\$3,209,776
327,453	327,453		
0	440,468		
511,745	697,461		
0	1,019,542		
432,388	432,388		
1,283,005	2,985,322		
\$2,365,984	\$8,347,202		

City of Conneaut, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2003

	General	Street Construction Maintenance and Repair	General Obligation Bond Retirement	Special Assessment Bond Retirement
Revenues				
Property and Other Taxes	\$277,099	\$0	\$558,775	\$0
Municipal Income Tax	1,944,717	809,848	0	0
Special Assessments	67,523	0	0	124,780
Intergovernmental	903,467	368,456	40,065	5,803
Fees, Licenses and Permits	185,013	0	0	0
Fines and Forfeitures	150,905	0	0	0
Rentals	17,000	0	0	0
Charges for Services	0	0	0	0
Contributions and Donations	10,310	0	0	0
Interest	18,656	0	0	0
Other	42,662	0	0	0
<i>Total Revenues</i>	<u>3,617,352</u>	<u>1,178,304</u>	<u>598,840</u>	<u>130,583</u>
Expenditures				
Current:				
General Government	916,295	0	12,176	4,689
Security of Persons and Property	2,003,386	0	0	0
Public Health Services	275,673	0	0	0
Leisure Time Activities	9,361	0	0	0
Community Development	73,035	0	0	0
Transportation	0	1,314,894	0	0
Capital Outlay	426,532	0	0	0
Debt Service:				
Principal Retirement	100,000	360,500	383,000	77,619
Interest and Fiscal Charges	8,113	9,892	161,565	58,757
<i>Total Expenditures</i>	<u>3,812,395</u>	<u>1,685,286</u>	<u>556,741</u>	<u>141,065</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(195,043)</u>	<u>(506,982)</u>	<u>42,099</u>	<u>(10,482)</u>
Other Financing Sources (Uses)				
Sale of Capital Assets	791	7,486	0	0
Notes Issued	80,000	360,500	0	0
Transfers In	0	160,000	0	0
Transfers Out	(323,434)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(242,643)</u>	<u>527,986</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	<u>(437,686)</u>	<u>21,004</u>	<u>42,099</u>	<u>(10,482)</u>
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>915,913</u>	<u>183,544</u>	<u>649,469</u>	<u>338,456</u>
<i>Fund Balances End of Year</i>	<u><u>\$478,227</u></u>	<u><u>\$204,548</u></u>	<u><u>\$691,568</u></u>	<u><u>\$327,974</u></u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio

*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2003*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	(\$346,141)
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$548,544	\$1,384,418	Governmental funds report capital outlays as expenditures.	
99,021	2,853,586	However, in the statement of activities, the cost of those	
0	192,303	assets is allocated over their estimated useful lives as	
743,613	2,061,404	depreciation expense. This is the amount by which capital	
18,341	203,354	outlays exceeded depreciation in the current period.	
54,657	205,562	Capital Outlay	706,298
33,650	50,650	Depreciation	(441,961)
215,756	215,756	Total	264,337
11,486	21,796		
1,816	20,472	Revenue in the statement of activities that do not provide	
12,496	55,158	current financial resources are not reported as revenue in	
		the funds.	
1,739,380	7,264,459	Property and Other Taxes	12,406
		Income Taxes	3,023
0	933,160	Intergovernmental	25,719
890,036	2,893,422	Special Assessments	(192,303)
69,353	345,026	Charges for Services	41,763
72,403	81,764	Total	(109,392)
346,615	419,650	Repayment of bond and note principal is an expenditure in the	
171,733	1,486,627	governmental funds, but the repayment reduces long-term	
279,766	706,298	liabilities in the statement of net assets.	1,226,119
305,000	1,226,119	In the statement of activities, interest is accrued on outstanding	
7,961	246,288	bonds, whereas in governmental funds, an interest expenditure	
		is reported when due.	(13,421)
2,142,867	8,338,354	Compensated absences reported in the statement of activities	
		do not require the use of current financial resources and	
0	8,277	therefore are not reported as expenditures in governmental	
290,000	730,500	funds.	(62,906)
152,411	312,411	Other financing sources in the governmental funds that	
0	(323,434)	increase long-term liabilities in the statement of net assets	
		are not reported as revenues in the statement of activities.	
442,411	727,754	Proceeds of Notes	(730,500)
38,924	(346,141)	<i>Change in Net Assets of Governmental Activities</i>	<u>\$228,096</u>
1,244,081	3,331,463		
\$1,283,005	\$2,985,322		

City of Conneaut, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$235,800	\$264,925	\$277,099	\$12,174
Municipal Income Tax	1,831,500	1,943,800	1,925,450	(18,350)
Special Assessments	62,000	62,000	67,523	5,523
Intergovernmental	1,174,024	943,500	927,262	(16,238)
Fees, Licenses and Permits	183,210	181,710	204,729	23,019
Fines and Forfeitures	213,680	215,180	154,492	(60,688)
Rentals	17,000	17,000	17,000	0
Contributions and Donations	16,000	3,500	10,310	6,810
Interest	40,000	40,000	18,656	(21,344)
Other	57,201	60,800	42,662	(18,138)
<i>Total Revenues</i>	3,830,415	3,732,415	3,645,183	(87,232)
Expenditures				
Current:				
General Government	1,065,026	1,176,667	942,591	234,076
Security of Persons and Property	2,193,319	2,105,274	1,955,299	149,975
Public Health Services	287,243	286,601	269,508	17,093
Leisure Time Activities	11,470	11,470	10,917	553
Community Development	67,149	66,907	62,589	4,318
Capital Outlay	423,257	423,257	423,257	0
Debt Service:				
Principal Retirement	300,000	300,000	300,000	0
Interest and Fiscal Charges	7,790	7,790	6,449	1,341
<i>Total Expenditures</i>	4,355,254	4,377,966	3,970,610	407,356
<i>Excess of Revenues Under Expenditures</i>	(524,839)	(645,551)	(325,427)	320,124
Other Financing Sources (Uses)				
Proceeds of Notes	260,000	460,000	460,000	0
Sale of Capital Assets	7,200	7,200	791	(6,409)
Advances In	41,946	41,946	41,946	0
Advances Out	(6,828)	(8,275)	(8,275)	0
Transfers Out	(386,700)	(449,699)	(323,434)	126,265
<i>Total Other Financing Sources (Uses)</i>	(84,382)	51,172	171,028	119,856
<i>Net Change in Fund Balance</i>	(609,221)	(594,379)	(154,399)	439,980
<i>Fund Balance Beginning of Year</i>	612,777	612,777	612,777	0
Prior Year Encumbrances Appropriated	56,295	56,295	56,295	0
<i>Fund Balance End of Year</i>	\$59,851	\$74,693	\$514,673	\$439,980

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Street Construction Maintenance and Repair Fund
For the Year Ended December 31, 2003

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal Income Tax	\$809,400	\$809,400	\$801,825	(\$7,575)
Intergovernmental	321,500	321,500	358,215	36,715
<i>Total Revenues</i>	<u>1,130,900</u>	<u>1,130,900</u>	<u>1,160,040</u>	<u>29,140</u>
Expenditures				
Current:				
Transportation	1,422,259	1,422,259	1,327,503	94,756
Debt Service:				
Principal Retirement	272,000	360,500	360,500	0
Interest and Fiscal Charges	9,894	9,894	9,892	2
<i>Total Expenditures</i>	<u>1,704,153</u>	<u>1,792,653</u>	<u>1,697,895</u>	<u>94,758</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(573,253)</u>	<u>(661,753)</u>	<u>(537,855)</u>	<u>123,898</u>
Other Financing Sources				
	0	0	7,486	7,486
Proceeds of Notes	308,500	360,500	360,500	0
Transfers In	250,000	260,000	160,000	(100,000)
<i>Total Other Financing Sources</i>	<u>558,500</u>	<u>620,500</u>	<u>527,986</u>	<u>(92,514)</u>
<i>Net Change in Fund Balance</i>	(14,753)	(41,253)	(9,869)	31,384
<i>Fund Balance Beginning of Year</i>	508	508	508	0
Prior Year Encumbrances Appropriated	43,409	43,409	43,409	0
<i>Fund Balance End of Year</i>	<u>\$29,164</u>	<u>\$2,664</u>	<u>\$34,048</u>	<u>\$31,384</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2003

	Business-Type Activities		
	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$93,365	\$184,027	\$277,392
Materials and Supplies Inventory	77,588	29,720	107,308
Receivables:			
Intergovernmental	171	149	320
Accounts	91,180	82,082	173,262
Special Assessments	32,181	43,222	75,403
<i>Total Current Assets</i>	<u>294,485</u>	<u>339,200</u>	<u>633,685</u>
<i>Noncurrent Assets:</i>			
Deferred Charges	27,868	0	27,868
Nondepreciable Capital Assets	12,280	580	12,860
Depreciable Capital Assets, Net	4,703,159	5,414,776	10,117,935
<i>Total Noncurrent Assets</i>	<u>4,743,307</u>	<u>5,415,356</u>	<u>10,158,663</u>
<i>Total Assets</i>	<u>5,037,792</u>	<u>5,754,556</u>	<u>10,792,348</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	28,382	1,544	29,926
Contracts Payable	23,223	21,492	44,715
Accrued Wages	28,543	24,317	52,860
Intergovernmental Payable	29,631	68,772	98,403
Compensated Absences Payable	62,569	26,224	88,793
Accrued Interest Payable	13,092	72,499	85,591
General Obligation Bonds Payable	70,000	0	70,000
OPWC Loans Payable	25,174	13,936	39,110
OWDA Loans Payable	22,957	230,735	253,692
Notes Payable	10,000	240,000	250,000
<i>Total Current Liabilities</i>	<u>313,571</u>	<u>699,519</u>	<u>1,013,090</u>
<i>Long-Term Liabilities (net of current portion):</i>			
Compensated Absences Payable	124,400	179,558	303,958
General Obligation Bonds Payable	951,756	0	951,756
Notes Payable	30,000	0	30,000
OPWC Loans Payable	420,559	70,473	491,032
OWDA Loans Payable	388,300	2,397,778	2,786,078
<i>Total Long-Term Liabilities</i>	<u>1,915,015</u>	<u>2,647,809</u>	<u>4,562,824</u>
<i>Total Liabilities</i>	<u>2,228,586</u>	<u>3,347,328</u>	<u>5,575,914</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,824,561	2,514,434	5,338,995
Unrestricted	(15,355)	(107,206)	(122,561)
<i>Total Net Assets</i>	<u>\$2,809,206</u>	<u>\$2,407,228</u>	<u>\$5,216,434</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2003*

	Business-Type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$1,604,060	\$1,500,517	\$3,104,577
Other	3,155	14,504	17,659
<i>Total Operating Revenues</i>	<u>1,607,215</u>	<u>1,515,021</u>	<u>3,122,236</u>
Operating Expenses			
Salaries	845,996	675,206	1,521,202
Purchased Services	249,113	227,742	476,855
Contractual Services	146,739	313,849	460,588
Materials and Supplies	81,789	26,946	108,735
Depreciation	129,378	173,315	302,693
Other	36,306	58,708	95,014
<i>Total Operating Expenses</i>	<u>1,489,321</u>	<u>1,475,766</u>	<u>2,965,087</u>
<i>Operating Income</i>	<u>117,894</u>	<u>39,255</u>	<u>157,149</u>
Non-Operating Revenues (Expenses)			
Interest and Fiscal Charges	(70,657)	(146,381)	(217,038)
(Loss) on Disposal of Capital Assets	(322)	(355)	(677)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(70,979)</u>	<u>(146,736)</u>	<u>(217,715)</u>
<i>Income (Loss) before Contributions and Transfers</i>	46,915	(107,481)	(60,566)
Capital Contributions	9,938	137,903	147,841
Transfers In	0	11,023	11,023
<i>Change in Net Assets</i>	56,853	41,445	98,298
<i>Net Assets Beginning of Year - (See Note 3)</i>	<u>2,752,353</u>	<u>2,365,783</u>	<u>5,118,136</u>
<i>Net Assets End of Year</i>	<u><u>\$2,809,206</u></u>	<u><u>\$2,407,228</u></u>	<u><u>\$5,216,434</u></u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2003

	Enterprise		
	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$1,678,834	\$1,605,277	\$3,284,111
Other Cash Receipts	3,155	14,504	17,659
Cash Payments to Employees for Services	(878,334)	(618,447)	(1,496,781)
Cash Payments for Goods and Services	(595,928)	(728,424)	(1,324,352)
Other Cash Payments	(36,306)	(58,708)	(95,014)
<i>Net Cash Provided by Operating Activities</i>	<u>171,421</u>	<u>214,202</u>	<u>385,623</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Loans	118,483	0	118,483
Proceeds from Notes	0	240,000	240,000
Tap in Fees	9,938	137,903	147,841
Principal Paid on OWDA Loans	(21,990)	(214,403)	(236,393)
Interest Paid on OWDA Loans	(18,610)	(147,814)	(166,424)
Principal Paid on OWPC Loans	(19,250)	(20,537)	(39,787)
Principal Paid on General Obligation Bond	(70,000)	0	(70,000)
Interest Paid on General Obligation Bond	(52,910)	0	(52,910)
Principal Paid on Long-term Note	(10,000)	(30,000)	(40,000)
Payments for Capital Acquisitions	(157,173)	(170,078)	(327,251)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(221,512)</u>	<u>(204,929)</u>	<u>(426,441)</u>
Cash Flows from Noncapital Financing Activities			
Transfer In	0	11,023	11,023
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(50,091)	20,296	(29,795)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>143,456</u>	<u>163,731</u>	<u>307,187</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$93,365</u>	<u>\$184,027</u>	<u>\$277,392</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	<u>\$117,894</u>	<u>\$39,255</u>	<u>\$157,149</u>
Adjustments:			
Depreciation	129,378	173,315	302,693
(Increase) Decrease in Assets:			
Accounts Receivable	74,945	104,909	179,854
Intergovernmental Receivable	(171)	(149)	(320)
Materials and Supplies Inventory	(27,172)	1,566	(25,606)
Increase (Decrease) in Liabilities:			
Accounts Payable	(5,901)	(58,299)	(64,200)
Contracts Payable	(89,825)	(128,667)	(218,492)
Accrued Wages	865	2,558	3,423
Compensated Absences Payable	(36,259)	31,737	(4,522)
Intergovernmental Payable	7,667	47,977	55,644
<i>Total Adjustments</i>	<u>53,527</u>	<u>174,947</u>	<u>228,474</u>
<i>Net Cash Provided by Operating Activities</i>	<u>\$171,421</u>	<u>\$214,202</u>	<u>\$385,623</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2003

	Private Purpose Trust	
	Cemetery	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$29,105	\$14,888
Cash and Cash Equivalents in Segregated Accounts	0	42,712
<i>Total Assets</i>	<u>29,105</u>	<u>\$57,600</u>
Liabilities		
Accounts Payable	6,800	\$0
Deposits Held and Due to Others	0	57,600
<i>Total Liabilities</i>	<u>6,800</u>	<u>\$57,600</u>
Net Assets		
Held in Trust for Endowment	<u>\$22,305</u>	

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended December 31, 2003

	Private Purpose Trust
	Cemetery
Additions	
Interest	\$562
Deductions	
Contractual Services	7,178
<i>Change in Net Assets</i>	(6,616)
<i>Net Assets Beginning of Year</i>	28,921
<i>Net Assets End of Year</i>	\$22,305

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 1 – Description of the City and 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 with the Council appointing the City Manager, Finance Director and Clerk of Council. Members of Council are elected to two-year terms.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Conneaut, this includes the departments 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 deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes.

The component unit column in the basic financial statements identifies the financial data of the discretely component unit, the Conneaut Port Authority. It is reported separately to emphasize that it is legally separate from the City.

Conneaut Port Authority The Conneaut Port Authority is a legally separate entity, statutorily created under Section 4582.02 of the Ohio Revised Code, served by a seven-member board of directors 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 fiscally accountable for the Port Authority, the Port Authority is a component unit of the City. Statements for the Port Authority can be obtained from the Conneaut Port Authority, 1205 Broad Street, Conneaut, Ohio 44030.

Information in the following notes to the basic financial statements is applicable to the primary government. Information relative to the Conneaut Port Authority is presented in Note 19.

The Conneaut Public Library has been excluded from the reporting entity because the City is not financially accountable for this organization nor does the City approve the budget, the levying of taxes or the issuance of debt for this organization.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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 local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989, to its business-type activities and its enterprise funds. The most significant of the City's accounting policies are described below.

A. Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

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

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

B. Fund Accounting

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

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

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

Street Construction Maintenance and Repair Fund - The street construction maintenance and repair special revenue fund accounts for the portion of the gasoline tax and motor vehicle registration fees designated for maintenance and repair of dedicated streets within the City.

General Obligation Bond Retirement Fund - The general obligation bond retirement fund is used to account for the property and other taxes collected, and the payment of, general long-term debt principal, interest and related costs.

Special Assessment Bond Retirement Fund - The special assessment bond retirement fund is used to account for the special assessments collected and the payment of special assessment debt principal, interest and related costs.

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

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

Water Fund The water fund accounts for revenues generated from the charges for distribution of water to the residential and commercial users of the City.

Sewer Fund The sewer fund accounts for sewer services to City individuals and commercial users in the City. The costs of providing these services are financed primarily through user charges.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. The City's only trust fund is a private-purpose trust which accounts for the perpetual care and maintenance of specific burial plots in the City's cemetery through an endowment. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for municipal court deposits.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

C. Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets.

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

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

D. Basis of Accounting

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

Revenues - Exchange and Nonexchange 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 are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, 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 taxes are 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants 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, 2003, but which were levied to finance year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

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.

E. Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "equity in pooled cash and cash equivalents".

The City has segregated bank accounts for monies held separate from the City's central bank account. These depository accounts are presented as "Cash and Cash Equivalents in Segregated Accounts" since they are not required to be deposited into the City treasury.

During 2003, investments were limited to nonnegotiable certificates of deposit and repurchase agreements, reported at cost and STAROhio.

STAROhio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule2a7 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, 2003.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2003 amount to \$18,656, which includes \$15,089 assigned from other City funds.

Investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the City are presented on the financial statements as cash equivalents.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which the services are consumed.

G. Inventory

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

H. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of five thousand dollars. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extended an asset's life or not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. For 2003, the City's infrastructure consists of traffic lights. The infrastructure assets will be completed in 2004 with the inclusion of bridges, roads and storm sewers. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. For 2003, water and sewer lines were reported from 1995 to the current period. The water and sewer lines will be completed during 2004 with the inclusion of information prior to 1995. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	15 - 45 years
Equipment	3 - 10 years
Vehicles	5 years
Furniture and Fixtures	3 -10 years
Infrastructure	40 years
Water and Sewer Lines	50 years

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

I. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Receivables and payables resulting from transactions between the primary government and the component unit for an outstanding loan are classified as “Due to Primary Government” or “Due from Component Unit” on the fund financial statements.

J. Compensated Absences

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

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those that the City has identified as probable of receiving payment in the future. The amount is based on the sick leave accumulated and employee's wage rates at December 31, taking into consideration any limits specified in the City's termination policy.

K. Accrued Liabilities and Long-Term Obligations

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

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due.

L. Fund Balance Reserves and Designations

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent expendable resources and therefore are not available for appropriation or expenditure. Fund balance reserves have been established for encumbrances and loans receivable.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Other purposes include street construction maintenance and repair, litter control and street lighting.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water and wastewater treatment. Operating expenses are necessary costs incurred to provide the good or services that is the primary activity of the fund. Revenues and expenses which do not meet these definitions are reported as non-operating.

O. Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, or from grants or outside contributions of resources restricted to capital acquisition and construction.

P. Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Q. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence.

R. Estimates

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

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

S. Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council 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 certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts in the amended certificate in effect at the time final appropriations were passed.

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

Note 3 - Change in Accounting Principles and Restatement of Prior Year Net Assets

A. Changes in Accounting Principles

For 2003, the City has implemented GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments," GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus," Statement No. 38, "Certain Financial Statement Note Disclosures," GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements" and Statement No. 41, "Budgetary Comparison Schedules - Perspective Differences."

GASB 34 creates new basic financial statements for reporting on the City's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements split the City's programs between business-type and governmental activities. Except for the restatements explained below, the beginning net asset amount for the business-type activities equals fund equity of the enterprise funds from last year. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002.

GASB Statement No. 37 clarifies certain provisions of Statement No. 34, including the required content of the Management's Discussion and Analysis, the classification of program revenues and the criteria for determining major funds. GASB Statement No. 38 modifies, establishes and rescinds certain financial

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

statement note disclosures. GASB Statement No. 41 allows the presentation of budgetary schedules as required supplementary information based on the government's legally adopted budget.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

B. Restatement of Net Assets/Fund Balance

The implementation of these changes had the following effects on fund balance of the major and non-major funds of the City as they were previously reported. The transition from governmental fund balances to net assets of the governmental activities is also presented.

	General	Street Construction, Maintenance and Repair	General Obligation Bond Retirement
Fund Balances, December 31, 2002	\$809,306	(\$215,224)	\$649,469
Fund Reclassification	102,023	396,372	0
Implementation of GASB Interpretation No. 6	4,584	2,396	0
Adjusted Fund Balances, December 31, 2002	<u>\$915,913</u>	<u>\$183,544</u>	<u>\$649,469</u>
			(continued)
	Special Assessment Bond Retirement	Non-major	Total
Fund Balances, December 31, 2002	\$338,456	\$710,009	\$2,292,016
Fund Reclassification	0	533,822	1,032,217
Implementation of GASB Interpretation No. 6	0	250	7,230
Adjusted Fund Balances, December 31, 2002	<u>\$338,456</u>	<u>\$1,244,081</u>	3,331,463
GASB 34 Adjustments:			
Capital Assets			2,507,598
Accrued Interest Payable			(42,375)
Compensated Absences			(683,129)
Long-Term Liabilities			(5,385,306)
Long-Term (Deferred) Assets			<u>3,253,429</u>
Governmental Activities Net Assets, December 31, 2002			<u>\$2,981,680</u>

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

At December 31, 2002 the business type activities had the following restatements. These restatements had the following effect on fund equity as it was previously reported.

	Water	Sewer	Business-Type Activities
Fund Equity, December 31, 2002	\$2,853,433	\$2,485,129	\$5,338,562
Correction to Capital Assets	(2,053)	14,977	12,924
Contracts Payable	(99,027)	(134,323)	(233,350)
Adjusted Net Assets December 31, 2002	\$2,752,353	\$2,365,783	\$5,118,136

Note 4 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual presented for the general and street construction, maintenance and repair funds is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than as a reservation of fund balance (GAAP).
4. Investments reported at cost (budget) rather than fair value (GAAP).

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

The adjustments necessary to convert the results of operations for the year on the GAAP basis to the budget basis for the general fund are as follows:

	Net Change in Fund Balance	
	General	Street Construction Maintenance and Repair
GAAP Basis	(\$437,686)	\$21,004
Net Adjustment for Revenue Accruals	114,780	(18,264)
Net Adjustment for Expenditures Accruals	125,868	31,635
Unrecorded Cash	(86,949)	0
Note Retirement	(200,000)	0
Proceeds of Notes	380,000	0
Advances In	41,946	0
Advances Out	(8,275)	0
Encumbrances	(84,083)	(44,244)
Budget Basis	(\$154,399)	(\$9,869)

Note 5 - Accountability

The following funds had deficit fund balances as of December 31, 2003:

Special Revenue Funds

Litter	\$2,602
CHIPS	14,221
Fire Pension	40,334

The fund deficits are caused by the recognition of expenditures on the modified accrual basis of accounting which are substantially greater than expenditures recognized on the cash basis. The general fund is liable for any deficit in these funds and provides operating transfers when cash is required, not 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 deposits maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposits 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. 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 issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds 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; and
6. The State Treasurer's investment pool (STAROhio).
7. Certain bankers' acceptance 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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payments for investments may be made upon delivery of the securities representing the investments to the 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."

Deposits At year end, the carrying amount of the City's deposits was \$1,129,223 and the bank balance was \$1,149,790. Of the bank balance:

1. \$128,452 was covered by federal depository insurance.
2. \$1,021,338 was uncollateralized and uninsured. Although the securities were held by the pledging financial institution's trust department or agent in the City's name and all State statutory requirements for the deposit of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

Investments Investments are classified under the guidelines of GASB Statement No. 3 into three categories. Category 1 includes investments that are insured or registered or are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments which are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. STAROhio's fair value at December 31, 2003 is \$1,590,288.

The classification of cash and cash equivalents and investments on the basic financial statements is based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with maturities of three months or less at the time of their purchase by the City.

A reconciliation between the classifications of cash and investments on the basic financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
<i>GASB Statement No. 9</i>	\$2,719,511	\$0
Investments of cash management pool:		
STAROhio	(1,590,288)	1,590,288
<i>GASB Statement No. 3</i>	\$1,129,223	\$1,590,288

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 7 - Receivables

Receivables at December 31, 2003, consisted primarily of municipal income taxes, property and other taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for user charged services, including unbilled utility services).

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant.

Special assessments expected to be collected in more than one year amount to \$1,921,833 in the special assessment bond retirement fund, \$28,660 in the water enterprise fund and \$35,530 in the sewer enterprise fund. At December 31, 2003, the amount of delinquent special assessments was \$83,615.

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 2003 for real and public utility property taxes represents collections of the 2002 taxes. Property tax payments received during 2003 for tangible personal property (other than public utility property) are for 2003 taxes.

2003 real property taxes are levied after October 1, 2003, on the assessed value as of January 1, 2003, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2003 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. 2003 public utility property taxes which became a lien December 31, 2002, are levied after October 1, 2003, and are collected in 2003 with real property taxes.

2003 tangible personal property taxes are levied after October 1, 2002, on the value as of December 31, 2002. Collections are made in 2003. Tangible personal property assessments are 25 percent of true value for capital assets and 23 percent of true value for inventory.

The full tax rate for all City operations for the year ended December 31, 2003, was \$20.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Real Property	\$138,496,320
Tangible Personal Property	19,020,650
Public Utility Property	<u>11,255,570</u>
Total Assessed Values	<u><u>\$168,772,540</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, the payment is due 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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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 and outstanding delinquencies which are measurable as of December 31, 2003 and for which there is an enforceable legal claim. In the general fund, the general obligation bond retirement fund, the fire and police levy funds and the police and fire pension special revenue funds, the entire receivable has been offset by deferred revenue since the current taxes were not levied to finance 2003 operations and the collections of delinquent taxes during the available period is not subject to reasonable estimation. On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and a revenue while the remainder of the receivable is deferred.

B. Income Taxes

The City levies a municipal income tax of 1.65 percent on gross salaries, wages 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, as required. 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.

C. Intergovernmental Receivables

A summary of intergovernmental receivables follows:

Governmental Activities	Amounts
Local Government	\$423,782
Gasoline Tax	151,099
Homestead and Rollback	74,477
Permissive Tax	73,186
Auto License Tax	55,404
Estate Tax	35,423
Court Fines	15,944
Grants	14,260
Workers' Compensation	1,023
Total	\$844,598

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 8 - Notes Payable

Changes in the City's note activity for the year ended December 31, 2003, were as follows:

	Outstanding 1/1/2003	Additions	(Reductions)	Outstanding 12/31/2003
<i>General Fund:</i>				
Prison Land, 2.59%	\$200,000	\$180,000	(\$200,000)	\$180,000
Madison Street Storm Sewer, 1.60%	0	200,000	0	200,000
<i>Total General Fund</i>	<u>200,000</u>	<u>380,000</u>	<u>(200,000)</u>	<u>380,000</u>
<i>Enterprise Fund:</i>				
Waste Water Improvement, 1.60%	0	240,000	0	240,000
<i>Total Notes</i>	<u>\$200,000</u>	<u>\$620,000</u>	<u>(\$200,000)</u>	<u>\$620,000</u>

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

Note 9 - Capital Assets

Capital asset activity for the year ended December 31, 2003, was as follows:

	Balance 12/31/2002	Additions	Deductions	Balance 12/31/2003
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$580,048	\$0	\$0	\$580,048
Construction in Progress	0	220,197	0	220,197
<i>Total Capital Assets not being Depreciated</i>	<u>580,048</u>	<u>220,197</u>	<u>0</u>	<u>800,245</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	1,705,322	3,842	0	1,709,164
Equipment	1,747,851	451,829	(53,351)	2,146,329
Vehicles	3,721,436	24,998	(113,735)	3,632,699
Furniture and Fixtures	28,097	0	0	28,097
Infrastructure:				
Traffic Lights	103,256	5,432	0	108,688
<i>Total Capital Assets being Depreciated</i>	<u>7,305,962</u>	<u>486,101</u>	<u>(167,086)</u>	<u>7,624,977</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(972,584)	(49,416)	0	(1,022,000)
Equipment	(1,270,046)	(147,357)	53,351	(1,364,052)
Vehicles	(3,077,237)	(241,506)	113,735	(3,205,008)
Furniture and Fixtures	(16,432)	(1,338)	0	(17,770)
Infrastructure:				
Traffic Lights	(42,113)	(2,344)	0	(44,457)
<i>Total Accumulated Depreciation</i>	<u>(5,378,412)</u>	<u>(441,961)</u>	<u>167,086</u>	<u>(5,653,287)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>1,927,550</u>	<u>44,140</u>	<u>0</u>	<u>1,971,690</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$2,507,598</u>	<u>\$264,337</u>	<u>\$0</u>	<u>\$2,771,935</u>

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Business Type Activities:	Balance 12/31/2002	Additions	Deductions	Balance 12/31/2003
Capital Assets not being Depreciated:				
Land	\$12,860	\$0	\$0	\$12,860
Construction in Progress	537,128	310,290	(847,418)	0
<i>Total Capital Assets not being Depreciated</i>	<u>549,988</u>	<u>310,290</u>	<u>(847,418)</u>	<u>12,860</u>
Capital Assets being Depreciated:				
Buildings and Improvements	645,906	0	0	645,906
Equipment	3,932,349	16,961	(53,726)	3,895,584
Vehicles	423,961	0	0	423,961
Infrastructure:				
Water and Sewer Lines	7,815,267	847,418	0	8,662,685
<i>Total Capital Assets being Depreciated</i>	<u>12,817,483</u>	<u>864,379</u>	<u>(53,726)</u>	<u>13,628,136</u>
Less Accumulated Depreciation:				
Buildings and Improvements	(590,437)	(4,082)	0	(594,519)
Equipment	(1,764,814)	(134,970)	53,049	(1,846,735)
Vehicles	(317,097)	(24,346)	0	(341,443)
Infrastructure:				
Water and Sewer Lines	(588,209)	(139,295)	0	(727,504)
<i>Total Accumulated Depreciation</i>	<u>(3,260,557)</u>	<u>(302,693)</u>	<u>53,049</u>	<u>(3,510,201)</u>
Total Capital Assets being Depreciated, Net	<u>9,556,926</u>	<u>561,686</u>	<u>(677)</u>	<u>10,117,935</u>
Total Business Type Activities Capital Assets, Net	<u>\$10,106,914</u>	<u>\$871,976</u>	<u>(\$848,095)</u>	<u>\$10,130,795</u>

Depreciation expense was charged to governmental functions as follows:

General Government	\$53,932
Security of Persons and Property	196,928
Leisure Time Activities	18,716
Community Environment	13,694
Transportation	158,691
Total Depreciation Expense	<u>\$441,961</u>

Note 10 - Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. 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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 11 - Long-Term Obligations

The original issue date, amount, interest rate and maturity date for each of the City's debt issues follow:

Debt Issue	Issue Date	Interest Rate	Issue Amount	Maturity
Governmental Activities				
General Obligation Bonds:				
Broad Street Underpass	1979	6.00%	\$1,200,000	2004
City Hall Annex	1986	6.88	1,500,000	2011
Library	1998	5.05	2,115,000	2018
Special Assessment Loans:				
East Conneaut Sewer Phase II	1996	4.16	746,716	2016
East-West Gateway	1993	4.80	554,029	2013
Gateway Phase II	1993	4.80	87,255	2014
I-90 Sewer	1998	3.98	167,329	2018
East Conneaut Sewer Phase III	1999	3.50	679,445	2020
Notes:				
Fire Truck	2003	2.61	80,000	2004
Street Equipment	2003	2.61	272,000	2004
Street Equipment	2003	2.33	88,500	2004
Conneaut Port Authority	2003	2.61	290,000	2004
Business-Type Activities				
<i>Special Assessment Loans:</i>				
East Conneaut Sewer Phase II	1996	4.16	215,671	2016
I-90 Sewer	1998	3.98	94,123	2020
East Conneaut Sewer Phase III	1999	3.50	132,997	2020
<i>Ohio Water Development Authority:</i>				
Wastewater Plant Improvement	1971	5.25	853,796	2013
Wastewater Plant Improvement	1987	9.06	557,110	2013
Wastewater	1988	4.80	2,580,000	2011
Water III	1995	4.35	543,845	2017
Dechlorination Project	1997	4.12	89,144	2017
<i>Ohio Public Works Commission</i>				
East Conneaut Sewer Phase II	1997	0.00	20,616	2006
Grove Street Project	1992	0.00	66,000	2004
Wastewater Treatment Plant	1992	0.00	123,926	2010
South Conneaut Water Tank	2000	0.00	385,000	2021
Liberty Water Line	2003	0.00	118,483	2023
<i>Note:</i>				
Prison Water Line	1997	0.00	100,000	2007
Computer Sewer	2002	2.33	30,000	2003
<i>General Obligation Bond:</i>				
Water III	1998	5.05	1,370,000	2018

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

A schedule of changes in bonds and other long-term obligations of the City during 2003 follows:

	Outstanding 1/1/2003	Additions	Reductions	Outstanding 12/31/2003	Amount Due In one Year
Governmental Activities:					
General Obligation Bonds					
Broad Street Underpass	\$300,000	\$0	\$150,000	\$150,000	\$150,000
City Hall Annex	900,000	0	100,000	800,000	100,000
Library	1,680,000	0	105,000	1,575,000	105,000
Total General Obligation Bonds	2,880,000	0	355,000	2,525,000	355,000
Special Assessment Obligations:					
OWDA Loans					
East Conneaut Sewer Phase II	525,482	0	28,329	497,153	27,552
East/West Gateway	367,578	0	26,066	341,512	27,332
Gateway Phase II	59,872	0	4,009	55,863	4,206
I-90 Sewer	140,421	0	7,416	133,005	7,714
East Conneaut Sewer Phase III	618,453	0	11,799	606,654	26,172
Total OWDA Loans	1,711,806	0	77,619	1,634,187	92,976
Long - Term Notes Payable:					
Fire Truck	100,000	80,000	100,000	80,000	0
Street Equipment	300,000	272,000	300,000	272,000	0
Street Equipment	88,500	88,500	88,500	88,500	0
Total Street Equipment	388,500	360,500	388,500	360,500	0
Conneaut Port Authority	305,000	290,000	305,000	290,000	0
Total Long - Term Notes Payable	793,500	730,500	793,500	730,500	0
Compensated Absences	683,129	248,788	185,882	746,035	0
Total Governmental Activities Long-Term Obligations	\$6,068,435	\$979,288	\$1,412,001	\$5,635,722	\$447,976
Business-Type Activities:					
Special Assessment OWDA Loans					
East Conneaut Sewer Phase II	175,161	0	9,443	165,718	11,808
I-90 Sewer	78,987	0	4,172	74,815	4,339
East Conneaut Sewer Phase III	135,757	0	2,590	133,167	5,745
Total Special Assessment OWDA Loans	389,905	0	16,205	373,700	21,892
OWDA Loans					
Wastewater Plant Improvement	437,055	0	30,314	406,741	31,906
Wastewater Plant Improvement	386,747	0	21,954	364,793	23,943
Wastewater	1,561,242	0	142,422	1,418,820	149,340
Water III	433,247	0	21,990	411,257	22,957
Dechlorination Project	67,967	0	3,508	64,459	3,654
Total OWDA Loans	2,886,258	0	220,188	2,666,070	231,800
Total OWDA Obligations	\$3,276,163	\$0	\$236,393	\$3,039,770	\$253,692

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

	Outstanding 1/1/2003	Additions	Reductions	Outstanding 12/31/2003	Amount Due In one Year
OPWC Loans					
East Conneaut Sewer Phase II	\$5,403	\$0	\$1,543	\$3,860	\$1,543
Grove Street Project	6,600	0	6,600	0	0
Wastewater Treatment Plant	92,943	0	12,394	80,549	12,393
South Conneaut Water Tank	346,500	0	19,250	327,250	19,250
Liberty Water Line	0	118,483	0	118,483	5,924
<i>Total OPWC Loans</i>	<u>451,446</u>	<u>118,483</u>	<u>39,787</u>	<u>530,142</u>	<u>39,110</u>
Notes Payable					
Prison Water Line Improvement	50,000	0	10,000	40,000	10,000
Computer, Sewer Jet	30,000	0	30,000	0	0
<i>Total Notes Payable</i>	<u>80,000</u>	<u>0</u>	<u>40,000</u>	<u>40,000</u>	<u>10,000</u>
General Obligation Bonds					
Water III	1,090,000	0	70,000	1,020,000	70,000
Unamortized Premium	1,879	(123)	0	1,756	0
<i>Total Bonds</i>	<u>1,091,879</u>	<u>(123)</u>	<u>70,000</u>	<u>1,021,756</u>	<u>70,000</u>
Compensated Absences	397,273	84,271	88,793	392,751	88,793
Total Business-Type Activities					
<i>Long-Term Obligations</i>	<u>5,296,761</u>	<u>202,631</u>	<u>474,973</u>	<u>5,024,419</u>	<u>461,595</u>
Total	<u><u>\$11,365,196</u></u>	<u><u>\$1,181,919</u></u>	<u><u>\$1,886,974</u></u>	<u><u>\$10,660,141</u></u>	<u><u>\$909,571</u></u>

General obligation bonds are direct obligations of the City and will be paid from the 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 will be paid from the general, street construction, maintenance and repair, litter control and ambulance special revenue funds and the water and sewer enterprise funds. The bond anticipation notes are direct obligations of the City and the business-type notes will be paid with charges for services revenues from the water and sewer enterprise funds.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

The City's overall legal debt margin was \$14,247,043 at December 31, 2003. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2003, are as follows:

	General Obligation Bonds		Special Assessment Loans		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$425,000	\$190,725	\$114,868	\$80,526	\$231,800	\$140,998
2005	275,000	166,888	119,664	75,727	244,060	128,738
2006	275,000	152,050	124,666	70,725	257,009	115,789
2007	275,000	137,214	129,879	65,512	270,686	82,111
2008	275,000	122,375	135,310	60,081	285,136	87,662
2009-2013	1,170,000	387,175	766,499	210,457	1,226,626	206,020
2014-2018	850,000	128,776	502,387	67,810	150,753	13,303
2019-2023	0	0	114,614	4,824	0	0
Total	<u>\$3,545,000</u>	<u>\$1,285,203</u>	<u>\$2,007,887</u>	<u>\$635,662</u>	<u>\$2,666,070</u>	<u>\$774,621</u>

	OPWC Loan	Notes Payable		Totals
	Principal	Principal	Interest	
2004	\$39,110	\$740,500	\$12,487	\$1,976,012
2005	39,110	10,000	0	1,059,187
2006	38,339	10,000	0	1,043,578
2007	37,567	10,000	0	1,007,969
2008	37,567	0	0	1,003,131
2009-2013	144,456	0	0	4,111,233
2014-2018	125,870	0	0	1,838,899
2019-2023	68,123	0	0	187,562
Total	<u>\$530,142</u>	<u>\$770,500</u>	<u>\$12,487</u>	<u>\$12,227,571</u>

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 12 - 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 2003, the City contracted with Love Insurance Company for various types of insurance as follows:

Company	Type of Coverage	Coverage
Love Insurance Company	Property/Boilers and Machinery	\$17,648,490
	Inland Marine	980,181
	Vehicles	
	Comprehensive	1,000,000
	Collision	646,584
	Valuable Papers and Records	100,000
	Police	2,000,000
	Public Officials	2,000,000
	Business Electronics Equipment	193,079
	Fire Vehicles and Ambulances	50,900

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

Note 13 - Defined Benefit Pension Plans

A. Ohio Public Employees Retirement System

The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and a defined contribution plan. Under the combined plan, employer contributions are invested by the retirement system to provide a formula retirement benefit similar to the traditional plan benefit. Member contributions, whose investment is self-directed by the member, accumulate retirement assets in a manner similar to the member directed plan.

OPERS provides retirement, disability, survivor and death benefits and annual cost of living adjustments to members of the traditional and combined plans. Members of the member directed plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that may be obtained by writing to OPERS, 277 E. Town St., Columbus, OH 43215-4642 or by calling (614) 222-6705.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

For the year ended December 31, 2003, the members of all three plans, except those in law enforcement or public safety participating in the traditional plan, were required to contribute 8.5 percent of their annual covered salaries. Members participating in the traditional plan who were in law enforcement contributed 10.1 percent of their annual covered salary; members in public safety contributed 9 percent. The City's contribution rate for pension benefits for 2003 was 8.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 11.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2003, 2002, and 2001 were \$134,127, \$216,418, and \$306,069 respectively; 84.23 percent has been contributed for 2003 and 100 percent for 2002 and 2001. The City's made no contributions to the member-directed plan for 2003.

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 Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10 percent of their annual covered salary to fund pension obligations while the City is required to contribute 11.75 percent for police officers and 16.25 percent for firefighters. Contributions are authorized by State statute. The City's contributions to the OP&F were \$102,591 and \$90,080 for the year ended December 31, 2003, \$128,600 and \$96,493 for the year ended December 31, 2002, \$130,670 and \$98,243 for the year ended December 31, 2001. The full amount has been contributed for 2002 and 2001. 67.92 percent has been contributed for 2003 with the remainder being reported as a liability.

Note 14 – Postemployment Benefits

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 with either the traditional or combined plans. Health care coverage for disability recipients and primary survivor recipients is available. Members of the member-directed plan do not qualify for postretirement health care coverage. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in *GASB Statement No. 12*. A portion of each employer's contribution to the traditional or combined plans is set aside for the funding of postretirement health care based on authority granted by State statute. The 2003 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 5.00 percent of covered payroll was the portion that was used to fund health care.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

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, 2002, include a rate of return on investments of 8.00 percent, an annual increase in active employee total payroll of 4.00 percent compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50 percent and 6.3 percent based on additional annual pay increases. Health care premiums were assumed to increase 4.00 percent annually.

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

The number of active contributing participants in the traditional and combined plans was 364,881. Actual employer contributions for 2003 which were used to fund postemployment benefits were \$78,437. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2002, (the latest information available) were \$10.0 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$18.7 billion and \$8.7 billion, respectively.

In December 2001, the Board adopted the Health Care "Choices" Plan. The Choices Plan will be offered to all persons newly hired in an OPERS covered position after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices will incorporate a cafeteria approach, offering a broader 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 Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives or is eligible to receive a monthly service, disability or survivor benefit check or is a spouse or eligible dependent child of such person. 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 OP&F shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. 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, of which 7.75 percent of covered payroll was applied to the postemployment health care program during 2003. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$67,666 for police and \$42,961 for firefighters. The OP&F's total health care expense for the year ended December 31, 2002, (the latest information available) was \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002, was 13,527 for police and 10,396 for firefighters.

Note 15 – Related Party Transactions

The Conneaut Port Authority, a component unit of the City of Conneaut, owes the City \$290,000 as of December 31, 2003, for upgrades to the public marina. During 2003, the Port Authority paid the City \$20,883, the amount of the principal and interest on the note. The financial statements reflect \$290,000 in "due from component unit".

Note 16 – Interfund Transfers and Balances

Interfund transfers during 2003, consisted of the following:

Transfer To	Transfer From General
Street Construction	
Maintenance and Repair	\$160,000
Litter	25,000
Tree Commission	700
Demolition	5,000
Recreation	5,000
Fire Pension	74,765
Community Development	
Block Grant	41,946
Sewer Fund	11,023
Totals	\$323,434

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them; to move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations; to provided additional resources for current operations or debt service; to segregate money for anticipated capital projects; and to return money to the fund from which it was originally provided once a project is completed.

The City had no transfers that either do not occur on a regular basis or were inconsistent with the purpose of the fund making the transfer.

The general fund had an interfund receivable at December 31, 2003 of \$8,275 and the CHIPS special revenue fund had a corresponding interfund payable. The interfund receivable and payable were due to the timing of the receipt of grant monies by the special revenue fund.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

Note 17 - Contingencies

A. Grants

The City receives financial assistance from federal and state 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 is subject to audit by the grantor agencies. 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 the overall financial position of the City at December 31, 2003.

B. Litigation

The City of Conneaut is a party to legal proceedings. 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.

Note 18 – Subsequent Event

On February 13, 2004, the City retired bond anticipation notes in the amounts of \$80,000 for a fire truck, \$272,000 for street equipment, \$88,500 for street equipment and \$290,000 for the marina. The City issued a \$348,000, 1.81 percent various purpose note and a \$270,000, 1.81 percent marina note on February 13, 2004. These notes will mature on February 11, 2005.

Note 19 – Conneaut Port Authority

A. Description of Reporting Entity

The Conneaut Port Authority is a legally separate entity, statutorily created under Section 4582.02 of the Ohio Revised Code, served by a seven-member board of directors appointed by the City Manager with the approval of City Council. Charged with the responsibility of industrial development and the improvement of Conneaut's interconnecting waterways, the Port Authority is empowered with the ability to carry out the actions they consider necessary to achieve these responsibilities. The Conneaut Port Authority is fiscally dependent on the City because the City approves the Conneaut Port Authority's budget and is therefore presented as a component unit of the City.

B. Summary of Significant Accounting Policies

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles (GAAP) for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board (GASB) and other recognized authoritative sources are generally applicable to the primary government. The Authority also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989. The City has elected not to apply FASB pronouncements and interpretations issued after November 30, 1989.

Fund Accounting The Conneaut Port Authority reports its operations as a single enterprise fund. This fund is used to account for any activity for which a fee is charged to external users for goods or services.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

C. Basis of Presentation – Fund and Measurement Focus and Basis of Accounting

The Conneaut Port Authority uses an enterprise fund to report its financial position and the results of its operations. This fund uses the economic resources measurement focus and the accrual basis of accounting.

D. Cash and Cash Equivalents

The Conneaut Port Authority follows the same statutory requirements for deposits and investments as the primary government (See Note 6).

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expense in the year in which the services are consumed.

F. Inventory

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

G. Capital Assets

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. The Conneaut Port Authority maintains a capitalization threshold of five hundred dollars. The Conneaut Port Authority does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets are depreciated except for land. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements and Buildings	10 - 39 Years
Equipment	5 - 7 Years

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The Conneaut Port Authority applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2003

I. Deposits and Investments

The Conneaut Port Authority follows the same guidelines identified in Note 6.

Deposits At year-end, the carrying amount of the Conneaut Port Authority deposits was \$105,585 and the bank balance was \$105,385. The entire bank balance was covered by federal depository insurance.

The Conneaut Port Authority did not have any investments at year end.

J. Capital Assets

Capital asset activity for the fiscal year ended December 31, 2003 was as follows:

	Balance 12/31/02	Additions	Deletions	Balance 12/31/03
Capital Assets, not being Depreciated				
Land	\$38,496	\$0	\$0	\$38,496
Construction in Progress	0	231,290	0	231,290
Total	<u>38,496</u>	<u>231,290</u>	<u>0</u>	<u>269,786</u>
Capital Assets, being Depreciated				
Marinas, Docks and Equipment	<u>2,317,149</u>	<u>10,662</u>	<u>0</u>	<u>2,327,811</u>
Less: Accumulated Depreciation				
Marinas, Docks and Equipment	<u>(949,763)</u>	<u>(104,042)</u>	<u>0</u>	<u>(1,053,805)</u>
<i>Total Capital Assets being Depreciated, Net</i>	<u>1,367,386</u>	<u>(93,380)</u>	<u>0</u>	<u>1,274,006</u>
<i>Total Capital Assets, Net</i>	<u><u>\$1,405,882</u></u>	<u><u>\$137,910</u></u>	<u><u>\$0</u></u>	<u><u>\$1,543,792</u></u>

K. Defined Benefit Pension Plan

The Conneaut Port Authority participates in the Ohio Public Employee Retirement System (OPERS). See Note 13. The Conneaut Port Authority required contributions to OPERS for the years ended December 31, 2003, 2002 and 2001 were \$5,115, \$5,268 and \$5,375 respectively. The full amount has been contributed for 2002 and 2001, 75 percent has been contributed for 2003 with the remainder being reported as an intergovernmental payable.

L. Postemployment Benefit

The Conneaut Port Authority provides postemployment and health care coverage through the Ohio Public Employees Retirement System (OPERS). See Note 14. The Conneaut Port Authority's actual contributions for 2003 which were used to fund postemployment benefits were \$1,887.

M. Long-Term Obligations

The Conneaut Port Authority is liable for a note payable to the City of Conneaut for the purpose of upgrades to the public marina. A \$290,000 note was issued on March 20, 2003 with an interest rate of 2.61 percent. This note is due on April 1, 2004.

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**CITY OF CONNEAUT
ASHTABULA COUNTY**

**SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2003**

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Revenues	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	A-C-00-107-1	14.228		\$140
CHIP	A-C-02-107-1	14.228	100,885	102,758
Formula Allocation Program	A-F-02-107-1	14.228	<u>84,000</u>	<u>81,721</u>
Subtotal Community Development Block Grants			184,885	184,619
Home Investment Partnership Program	A-C-02-107-2	14.239	<u>92,125</u>	<u>92,125</u>
Total U.S. Department of Housing and Urban Development			277,010	276,744
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>Direct Program:</i>				
COPS Fast	1995-CF-WX-2915	16.710	9,855	9,855
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
<i>Passed through Ohio Public Safety:</i>				
Traffic Enforcement		20.600	24,213	24,213
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
<i>Passed Through Ohio Emergency Management Agency</i>				
Public Assistance Grant Program	FEMA-3187-007-18350	97.036	4,514	
<i>Direct Program:</i>				
Assistance to Firefighters Grant Program	EMW-2002-FG-12059	97.044	<u>127,125</u>	<u>127,125</u>
Total Federal Emergency Management Agency			131,639	127,125
Total Federal Assistance			<u>442,717</u>	<u>437,937</u>

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

**CITY OF CONNEAUT
ASHTABULA COUNTY**

DECEMBER 31, 2003

NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES

NOTE A--SIGNIFICANT ACCOUNTING POLICIES

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

NOTE B-- COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) REVOLVING LOAN PROGRAMS

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low-moderate income households and to eligible persons and to rehabilitate homes. The Federal Department of Housing and Urban Development (HUD) grants money for these loans to the City passed through the Ohio Department of Development. The initial loan of this money is recorded as a disbursement on the accompanying Schedule of Federal Awards Expenditures. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by mortgages on the property. At December 31, 2003, the gross amount of loans outstanding under this program was \$326,501.

NOTE C -- MATCHING REQUIREMENTS

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



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANT'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

City of Conneaut
Ashtabula County
294 Main Street
Conneaut, Ohio 44030

To the Members of Council:

We have audited the financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Conneaut, Ashtabula County, (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 30, 2004, in which we noted certain infrastructure assets were not recorded or depreciated in the business-type activities. We also noted the City adopted Governmental Accounting Standards Board Statement No. 34. 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 City of Conneaut's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However we noted certain immaterial instance of noncompliance that we have reported to management of the City in a separate letter dated July 30, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Conneaut's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with management's assertions in the financial statements. A reportable condition is described in the accompanying schedule of findings as item 2003-001.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, we consider item 2003-001 listed above to be a material weakness. We also noted certain matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 30, 2004.

This report is intended for the information and use of the audit committee, management, Members of Council, 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.

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

Betty Montgomery
Auditor of State

July 30, 2004



**Auditor of State
Betty Montgomery**

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

City of Conneaut
Ashtabula County
294 Main Ave
Conneaut, Ohio 44030

To the Members of Council:

Compliance

We have audited the compliance of City of Conneaut, Ashtabula County, (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2003. 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 City of Conneaut's management. Our responsibility is to express an opinion on 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. 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 City of Conneaut's compliance with those requirements.

In our opinion, 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, 2003.

Internal Control Over Compliance

The management of 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 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses. However, we noted one matter involving the internal control over federal compliance that does not require inclusion in this report, that we have reported to management of the City in a separate letter dated July 30, 2004.

This report is intended for the information and use of the audit committee, management, Members of Council, 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.



Betty Montgomery
Auditor of State

July 30, 2004

**CITY OF CONNEAUT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003**

1. SUMMARY OF AUDITOR'S RESULTS

(d)() (i)	Type of Financial Statement opinion	Qualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	No
(d)(1)(vii)	Major Programs (list):	CHIP Program 14.228 and Assistant to Firefighters 83.554
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	No

**CITY OF CONNEAUT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2003**

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

Finding 2003-001 – Material Weakness

Capital Assets Policy and Procedures

The City has not recorded water and sewer line infrastructure assets acquired or replaced prior to 1995 in the business type activities and, accordingly, have not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that infrastructure assets acquired or replaced since 1980 be capitalized and depreciated, which would increase the assets, net assets and expenses of the business type activities

The City should develop formal policies and procedures for the recording and depreciating Capital Assets, including infrastructure. The following items represent matters that should be considered in developing capital asset policies and procedures:

1. Capitalization and reporting threshold for assets: Currently the City's capitalization threshold is \$1,500 for assets with a useful life of over one year. For governments reporting in accordance with Governmental Accounting Standards Board (GASB) Statement 34, the Governmental Finance Officers Association has recommended a reporting threshold of a dollar amount that will allow the entity to report 80% of its total assets. The City should review asset records to determine if modification to the threshold is appropriate. The City should also address the treatment of items acquired in aggregate where individually the items do not meet the capitalization threshold, such as computers, and determine whether or not these items are going to be included as assets or be recorded as an expense at the time of purchase.
2. Treatment of repairs and maintenance: The City's policies and procedures should specifically address the type of expenses that would result in an addition to a recorded asset or reported as a repair and maintenance expense. In general, expenses that extend the useful life of an asset should be capitalized and depreciated over future periods, other expense would be recorded as repair and maintenance expense in period paid.
3. Treatment of fully depreciated assets: Depreciation expense should approximate the expense of the asset allocated to the periods benefiting from the asset use. Fully depreciated assets should be reviewed to determine if the useful life of the asset should be extended in order to provide for proper matching of the expenditure to the period benefiting from the asset.
4. Water and sewer lines prior to 1995, should be researched by the City, and if need be, a specialist should be consulted to help determine the cost and depreciation figures. All information should be maintained in a permanent file for future reference and accountability.

3. FINDINGS FOR FEDERAL AWARDS

None

CITY OF CONNEAUT
ASHTABULA COUNTY

DECEMBER 31, 2003

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 §.315 (b)

Finding Number	Finding Summary	Fully <u>Corrected</u> ?
2002-001	Cash Management 15 day rule	yes



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

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 9, 2004**