



**Auditor of State
Betty Montgomery**

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Fairport Harbor Port Authority
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Board of Directors:

We have audited the accompanying financial statements of the Fairport Harbor Port Authority, Lake County, Ohio, (the Authority) as of and for the years ended December 31, 2002 and December 31, 2001. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion 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 provide a reasonable basis for our opinion.

As described in Note 1, the Authority prepares its financial statements on the basis of accounting prescribed or permitted by the Auditor of State, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fund cash balance of the Fairport Harbor Port Authority, Lake County, Ohio, as of December 31, 2002 and December 31, 2001, and its cash receipts and disbursements for the years then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2003 on our consideration of the Authority'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.

This report is intended solely for the information and use of the management, the Board of Directors and other officials authorized to receive this report under § 117.26, Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Betty Montgomery".

Betty Montgomery
Auditor of State

June 20, 2003

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**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2002**

	General Fund
Cash Receipts:	
Property Tax and Other Local Taxes	\$13,541
Intergovernmental Receipts	146,834
Charges for Services	68,439
Earnings on Investments	449
Miscellaneous	13,562
Total Cash Receipts	242,825
Cash Disbursements:	
Current:	
General Government	65,397
Debt Service:	
Principal & Interest Payments	17,840
Capital Outlay	240,356
Total Cash Disbursements	323,593
Total Receipts Over/(Under) Disbursements	(80,768)
Excess of Cash Receipts Over/(Under) Cash Disbursements	(80,768)
Fund Cash Balances, January 1, 2002	125,583
Fund Cash Balances, December 31, 2002	\$44,815

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

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - THE GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>General Fund</u>
Cash Receipts:	
Property Tax and Other Local Taxes	\$12,129
Intergovernmental Receipts	278,962
Charges for Services	65,324
Earnings on Investments	1,417
Miscellaneous	333
	<hr/>
Total Cash Receipts	358,165
	<hr/>
Cash Disbursements:	
Current:	
General Government	59,797
Debt Service:	
Principal & Interest Payments	163,545
Capital Outlay	109,891
	<hr/>
Total Cash Disbursements	333,233
	<hr/>
Total Receipts Over/(Under) Disbursements	24,932
	<hr/>
Other Financing Receipts	
Loan Proceeds	50,000
	<hr/>
Total Other Financing Receipts	50,000
	<hr/>
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements	74,932
	<hr/>
Fund Cash Balances, January 1, 2001	50,651
	<hr/>
Fund Cash Balances, December 31, 2001	<u><u>\$125,583</u></u>

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

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The Fairport Harbor Port Authority, Lake County, Ohio, (the Authority) is a body corporate and politic established to exercise the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The Authority operates under the direction of a five-member Board of Directors, appointed by the Mayor with the consent of the Council of the Village of Fairport Harbor. The Authority's operations involve the authorization to purchase, construct, sell, lease, and operate docks, wharfs, piers, warehouses, and other port terminal or transportation facilities within its jurisdiction as enumerated in Ohio Revised Code Chapter 4582.

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

B. Basis of Accounting

These financial statements follow the basis of accounting prescribed or permitted by the Auditor of State, which is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, as prescribed or permitted by the Auditor of State.

C. Cash and Investments

Certificates of deposits are valued at cost.

D. Fund Accounting

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

General Fund

The General Fund is the general operating fund. It is used to account for all financial resources.

E. Budgetary Process

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

1. Appropriations

Budgetary expenditures (that is, disbursements) may not exceed appropriations at the fund level of control and appropriations may not exceed estimated resources. The Board must annually approve appropriation measures and subsequent amendments. The County Budget Commission must also approve the annual appropriation measure. Appropriations lapse at year end.

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Authority to reserve (encumber) appropriations when commitments are made. The Authority did not use the encumbrance method of accounting.

A summary of 2002 and 2001 budgetary activity appears in Note 3.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

2. EQUITY IN POOLED CASH AND INVESTMENTS

The Village maintains a cash and investments pool used by all funds. The Ohio Revised Code prescribes allowable deposits and investments. The carrying amount of cash and investments at December 31 was as follows:

	<u>2002</u>	<u>2001</u>
Demand deposits	\$39,815	\$120,583
Certificates of deposit	5,000	5,000
Total deposits	<u>\$44,815</u>	<u>\$125,583</u>

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

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

3. BUDGETARY ACTIVITY

Budgetary activity for the years ending 2002 and 2001 follows:

2002 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$49,396	\$242,825	\$193,429

2002 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$81,950	\$323,593	(\$241,643)

2001 Budgeted vs. Actual Receipts			
Fund Type	Budgeted Receipts	Actual Receipts	Variance
General	\$83,000	\$408,165	\$325,165

2001 Budgeted vs. Actual Budgetary Basis Expenditures			
Fund Type	Appropriation Authority	Budgetary Expenditures	Variance
General	\$122,400	\$333,233	(\$210,833)

Contrary to Ohio Rev. Code §5705.41(B), expenditures exceeded appropriations in the general fund by \$241,643 and \$210,833 for the years ending December 31, 2002 and December 31, 2001.

4. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which rates are adopted by the Board. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. Homestead and rollback amounts are then paid by the State, and are reflected in the accompanying financial statements as Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to make semiannual payments, the first half is due December 31. The second half payment is due the following June 20.

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

Tangible personal property tax is assessed by the property owners, who must file a list of such property to the County by each April 30.

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

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002 AND 2001
(Continued)**

5. RETIREMENT SYSTEMS

The Authority's employees belong to the Ohio Public Employees Retirement System (OPERS). OPERS are cost-sharing, multiple-employer plans. This plan provide retirement benefits, including postretirement healthcare, and survivor and disability benefits to participants as prescribed by the Ohio Revised Code.

Contribution rates are also prescribed by the Ohio Revised Code. For 2002 and 2001, OPERS members contributed 8.5% of their gross salaries. The Authority contributed an amount equal to 13.55% of participants' gross salaries for 2002 and 2001. The Authority has paid all contributions required through December 31, 2002.

6. DEBT

Debt outstanding at December 31, 2002 was as follows:

	<u>Principal</u>	<u>Interest Rate</u>
Loan – First Merit Bank	\$50,780	4.25%
Loan – Private Citizen	50,000	0%

The First Merit Bank loan was a temporary construction loan that was approved for \$250,000. The loan relates to the dredging of the river and construction of a brake wall and pier. The Authority borrowed only \$217,883 and is required to reduce the principal balance down to a minimum balance of \$75,000. The remaining principal balance will then be converted to a five-year real estate loan with the last payment being a balloon payment of principal and interest. The loan is collateralized by a mortgage and an assignment of rents and leases on the property.

In 2001, the Authority received a \$50,000 interest free personal loan from a private citizen. A repayment schedule was not established by the respective parties. In January 2003, the Authority repaid the entire loan amount.

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

<u>Year Ending December 31</u>	<u>Loans</u>
2003	\$69,072
2004	19,072
2005	<u>15,893</u>
Total	<u>\$104,037</u>

7. RISK MANAGEMENT

The Authority has obtained commercial insurance for the following risks:

- Comprehensive property and general liability; and
- Public officials liability.



**Auditor of State
Betty Montgomery**

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

Fairport Harbor Port Authority
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Board of Directors:

We have audited the financial statements of the Fairport Harbor Port Authority, Lake County, Ohio, (the Authority) as of and for the years ended December 31, 2002 and December 31, 2001, and have issued our report thereon dated June 20, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority'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 instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 to 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the Authority in a separate letter dated June 20, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings as items 2002-004 and 2002-005.

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 also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Authority in a separate letter dated June 20, 2003.

This report is intended solely for the information and use of management and the Board of Directors 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

June 20, 2003

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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The comments appearing with an asterisk (*) denotes comments that were previously brought to management's attention in the 2000 and 1999 audit report for which corrective action has not been taken.

Finding Number	2002-001 *
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Ohio Rev. Code §5705.41(D) states no subdivision shall make any contract or order any expenditure of money unless the certificate of the fiscal officer is attached. The fiscal officer must certify that the amount required to meet such a commitment has been lawfully appropriated and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrance.

This section also provides two exceptions to the above requirements:

- If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was appropriated and free of any previous encumbrances, the Board of Directors may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate (a then and now certificate), if such expenditure is otherwise valid.
- If the amount involved is less than one thousand dollars, the fiscal officer may authorize it to be paid without the affirmation of the Board of Directors.

The Clerk-Treasurer does not certify the availability of funds for any contract or expenditure.

Finding Number	2002-002 *
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Ohio Rev. Code § 117.38, provides that cash basis entities must file their annual report with the Auditor of State within 60 days of the fiscal year end. The Authority did not file their annual report with the Auditor of State for the years ending December 31, 2002 and 2001.

Finding Number	2002-003
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Ohio Rev. Code § 5705.41(B), prohibits a subdivision from making an expenditure unless it has been appropriated. As of December 31, 2002 and December 31, 2001, the following fund had expenditures in excess of appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
December 31, 2002			
General Fund	\$81,950	\$323,593	(\$241,643)
December 31, 2001			
General Fund	122,400	\$333,233	(210,833)

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2002 AND 2001**

FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS
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Reportable Conditions

Finding Number	2002-004
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In 2001, the Authority received a \$50,000 interest free personal loan from a private citizen. However, no agreement was prepared and signed by the respective parties defining the terms and conditions of the loan. Without an agreement, the actual terms and conditions of the loan may be subject to speculation.

In January 2003, the Authority repaid the entire loan amount.

In the future, we recommend that any loans the Authority obtains be secured by a formal agreement between the respective parties which details its terms and conditions.

Finding Number	2002-005
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Bank to Book Reconciliations

Cash and investment balances include cash in the general operating bank account and certificates of deposit. Cash is an asset that is very susceptible to embezzlement and is considered a high risk asset because of its liquidity and its desirability. In order for the cash to be properly monitored and accounted for, the Authority should perform a monthly reconciliation. This reconciliation verifies that the cash balance reported in the general ledger agrees to the adjusted balance per the bank statement.

A review of the cash cycle disclosed the Authority's general bank account was not reconciled to the general ledger during calendar years 2002 and 2001. As a result, posting errors were not detected. This resulted in several adjustments being made to the Authority's financial statements.

We recommend the Clerk-Treasurer reconcile the general ledger to the Authority's bank accounts on a monthly basis and that it be reviewed and approved by a member of the Board of Directors.

**FAIRPORT HARBOR PORT AUTHORITY
LAKE COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002 AND 2001**

Finding Number	Finding Summary	Fully Corrected ?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2000-30843-001	Annual cash basis report was not filed with the State Auditor	No	No change, reissued in 2002-2001 audit report.
2000-30843-002	Appropriations were not approved by the Board	Yes	
2000-30843-003	Clerk-Treasurer does not certify the availability of funds	No	No change, reissued in 2002-2001 audit report.



**Auditor of State
Betty Montgomery**

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FAIRPORT HARBOR PORT AUTHORITY

LAKE 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
JULY 22, 2003**