



**Auditor of State
Betty Montgomery**

**CITY OF CONNEAUT
ASHTABULA COUNTY**

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conneaut, Ashtabula County, Ohio (the City), as of and for the year ended December 31, 2004, 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 the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Conneaut, Ashtabula County, as of December 31, 2004, and the respective changes in financial position, and cash flows, where applicable, and the respective budgetary comparison for the General Fund, and the Street, Construction, Maintenance and Repair Fund thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

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 21, 2006

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
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, 2004. 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 2004 are as follows:

- Total liabilities of the City decreased \$1,104,932 or 8.20 percent from 2003 due in large to the paying down of long-term obligations.
- Total capital assets decreased by \$982,878 or 3.79 percent from 2003 due to increases in accumulated depreciation.
- Total equity in pooled cash and cash equivalents decreased by \$167,348 or 6.36 percent from 2003 from an increase in overall governmental expenditures.
- Total long-term liabilities decreased by \$769,379. Principal outstanding on the City's general obligation bonds decreased by \$425,123 and OWDA principal decreased by \$346,668.

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 2004 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, public health services, leisure time activities, basic utility services, community development and transportation.
- **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 7. 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 designated 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 special revenue fund, the general obligation bond retirement fund, the special assessment bond retirement fund, the water enterprise fund and the sewer enterprise 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 2004 as they compare to 2003.

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

(Table 1)
 Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets						
Current and Other Assets	\$8,013,068	\$8,338,927	\$876,569	\$661,553	\$8,889,637	\$9,000,480
Capital Assets, Net	14,820,106	15,594,121	10,109,947	10,318,810	24,930,053	25,912,931
<i>Total Assets</i>	<u>22,833,174</u>	<u>23,933,048</u>	<u>10,986,516</u>	<u>10,980,363</u>	<u>33,819,690</u>	<u>34,913,411</u>
Liabilities						
Current and Other Liabilities	2,047,921	2,265,364	433,385	551,495	2,481,306	2,816,859
Long-Term Liabilities:						
Due Within One Year	481,123	447,976	434,597	461,595	915,720	909,571
Due in More than One Year	4,796,794	5,187,746	4,178,248	4,562,824	8,975,042	9,750,570
<i>Total Liabilities</i>	<u>7,325,838</u>	<u>7,901,086</u>	<u>5,046,230</u>	<u>5,575,914</u>	<u>12,372,068</u>	<u>13,477,000</u>
Net Assets						
Invested in Capital Assets						
Net of Debt	13,250,480	13,823,621	5,593,036	5,527,010	18,843,516	19,350,631
Restricted:						
Capital Projects	165,563	150,452	0	0	165,563	150,452
Debt Service	978,890	1,168,150	0	0	978,890	1,168,150
Street Construction,						
Maintenance and Repair	427,146	282,006	0	0	427,146	282,006
Community Housing	102,376	80,924	0	0	102,376	80,924
Economic Development	476,127	477,114	0	0	476,127	477,114
Ambulance Services	288,155	271,991	0	0	288,155	271,991
Other Purposes	279,820	224,128	0	0	279,820	224,128
Unrestricted (Deficit)	(461,221)	(446,424)	347,250	(122,561)	(113,971)	(568,985)
<i>Total Net Assets</i>	<u>\$15,507,336</u>	<u>\$16,031,962</u>	<u>\$5,940,286</u>	<u>\$5,404,449</u>	<u>\$21,447,622</u>	<u>\$21,436,411</u>

Total net assets of the City, including both governmental and business-type activities, are \$21,447,622, which is a marginal increase of \$11,211 from last year. 87.86 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. Net assets restricted for debt service for the City decreased by \$189,260 during 2004. This decrease was the result of the general obligation bond retirement fund collecting less property tax revenues for 2004. In the business-type activities, user fees are the primary revenue source for the repayment of debt.

Net assets in the governmental activities decreased by \$524,626, and total assets decreased by \$1,099,874 or 4.59 percent. The most significant decreases occurred in net capital assets, special assessments receivable and equity in pooled cash and cash equivalents. The decrease in net capital assets was due primarily to an increase in accumulated depreciation. The decrease in special assessments receivable was due to a reduction in the number of years of outstanding receivables remaining. The decrease in cash was due to a greater reliance on available resources to support operations. A decrease in governmental liabilities of \$575,248 was due primarily to the reduction in debt principal during 2004. The Environmental Cleanup note was issued for \$170,000 for the demolition of the astatic building.

City of Conneaut, Ohio
Management's Discussion and Analysis
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Business activities experienced a \$535,837 increase in net assets, mainly due to an overall decrease in liabilities. Most of the decrease in liabilities was due to principal reductions on OWDA Loans and general obligation debt.

Further details of the changes in net assets can be observed in Table 2 that presents changes in net assets by way of the results of activities in 2004 compared to 2003.

(Table 2)
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program Revenues						
Charges for Services	\$775,416	\$717,085	\$3,548,805	\$3,104,577	\$4,324,221	\$3,821,662
Operating Grants and Contributions	1,099,088	870,386	10,003	0	1,109,091	870,386
Capital Grants and Assessments	277,771	223,234	0	147,841	277,771	371,075
Total Program Revenues	2,152,275	1,810,705	3,558,808	3,252,418	5,711,083	5,063,123
General Revenues						
Property Taxes	1,340,172	1,396,824	0	0	1,340,172	1,396,824
Municipal Income Taxes	2,876,985	2,856,609	0	0	2,876,985	2,856,609
Grants and Entitlements not Restricted to Specific Programs	937,225	1,015,299	0	0	937,225	1,015,299
Investment Earnings	25,400	20,472	0	0	25,400	20,472
Gain on Sale of Capital Assets	0	8,277	0	0	0	8,277
Miscellaneous	170,568	55,158	4,136	17,659	174,704	72,817
Total General Revenues	5,350,350	5,352,639	4,136	17,659	5,354,486	5,370,298
Total Revenues	7,502,625	7,163,344	3,562,944	3,270,077	11,065,569	10,433,421
Program Expenses						
General Government	1,463,838	998,850	0	0	1,463,838	998,850
Security of Persons and Property	3,039,526	3,097,076	0	0	3,039,526	3,097,076
Public Health Services	320,256	353,790	0	0	320,256	353,790
Leisure Time Activities	92,522	100,480	0	0	92,522	100,480
Basic Utility Services	32,500	0	0	0	32,500	0
Community Development	583,977	437,292	0	0	583,977	437,292
Transportation	2,265,269	1,677,028	0	0	2,265,269	1,677,028
Interest and Fiscal Charges	229,363	259,709	0	0	229,363	259,709
Water	0	0	1,627,086	1,560,300	1,627,086	1,560,300
Sewer	0	0	1,400,021	1,622,502	1,400,021	1,622,502
Total Program Expenses	8,027,251	6,924,225	3,027,107	3,182,802	11,054,358	10,107,027
Increase in Net Assets	(524,626)	239,119	535,837	87,275	11,211	326,394
Transfers	0	(11,023)	0	11,023	0	0
Net Assets Beginning of Year	16,031,962	15,803,866	5,404,449	5,306,151	21,436,411	21,110,017
Net Assets End of Year	\$15,507,336	\$16,031,962	\$5,940,286	\$5,404,449	\$21,447,622	\$21,436,411

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

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 \$2,876,985 in revenue for 2004, accounting for approximately 38.35 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 2004 were \$937,225 and represent about 12.49 percent of governmental activities revenue.

Income tax collections for 2004 were .71 percent higher than 2003. This increase was due, in part, to a recovery in the local economy, collections from major construction projects, and continued efforts to collect delinquent income taxes. 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 three 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.

37.87 percent of governmental activities expenses 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 Public Works Department (transportation) accounted for 28.22 percent of the expenses in the governmental activities or about \$2.2 million dollars. The transportation expense increase of \$588,241 over 2003 is due to an increased amount of road maintenance in the current year. 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 \$1,845,374 and \$1,717,570 respectively, while expenses were \$1,627,086 and \$1,400,021, respectively. In 2004, the wastewater plant served 4,146 customers and the water plant provided water to 5,011 customers. Approximately forty-five million gallons of water and thirty-seven million gallons of wastewater are processed each month.

The City's Funds

Information about the City's governmental funds begins on page 15. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$7,633,942 and expenditures of \$8,426,683. 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, 2004
Unaudited

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 \$3,552,941, which exceeded operating expenses of \$2,803,826 by \$749,115 or 21.08 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 Ohio Revised Code. In 2004 estimated revenues were \$3,602,048, where as actual revenues received were \$3,801,688, which is \$199,640 higher than estimated revenues. A large part of the difference was made from conservative property and income tax collections. Additionally, members of council passed appropriations of \$4,414,411. Actual expenditures were \$4,309,744, which is \$104,667 lower than appropriations. This difference is made from the City becoming more conservative in spending due to the current economic conditions that entities are facing State-wide.

Capital Assets and Debt Administration

Capital Assets

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$580,048	\$580,048	\$12,860	\$12,860	\$592,908	\$592,908
Construction in Progress	239,206	239,206	216,293	188,015	455,499	427,221
Buildings and Improvements	632,852	682,567	47,638	51,387	680,490	733,954
Equipment	598,905	697,018	1,966,954	2,048,849	2,565,859	2,745,867
Vehicles	312,425	430,553	13,102	20,152	325,527	450,705
Furniture and Fixtures	7,266	8,823	0	0	7,266	8,823
Infrastructure						
Traffic Signals	62,883	64,017	0	0	62,883	64,017
Roads	12,386,521	12,891,889	0	0	12,386,521	12,891,889
Water and Sewer Lines	0	0	7,853,100	7,997,547	7,853,100	7,997,547
Total	\$14,820,106	\$15,594,121	\$10,109,947	\$10,318,810	\$24,930,053	\$25,912,931

Total capital assets (net of depreciation) for the governmental activities were \$14,820,106, which was a \$774,015 decrease from the prior year. The largest equipment acquisitions included three police cruisers and a generator for fire station number 3.

Total capital assets (net of depreciation) for the business activities were \$10,109,947, which was a decrease of \$208,863. This was due primarily to an increase of accumulated depreciation. The largest asset acquisition in the water department was a backup portable generator at a cost of \$18,000. The largest acquisitions for the wastewater department were a backup pump for Spring Street and a used tractor for a total cost of \$18,300.

City of Conneaut, Ohio
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Long-term Obligations

The City had \$9,890,762 in outstanding obligations, which is \$769,379 less than last year. These obligations are comprised of general obligation bonds, OPWC and OWDA loans, notes payable and compensated absences.

(Table 4)
 Outstanding Long-term Obligations at Year End

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	\$2,170,000	\$2,525,000	\$951,633	\$1,021,756	\$3,121,633	\$3,546,756
OWDA Loans	1,539,243	1,634,187	2,788,046	3,039,770	4,327,289	4,673,957
OPWC Loans	31,626	0	528,865	530,142	560,491	530,142
Notes Payable	788,000	730,500	30,000	40,000	818,000	770,500
Compensated Absences	749,048	746,035	314,301	392,751	1,063,349	1,138,786
Total	\$5,277,917	\$5,635,722	\$4,612,845	\$5,024,419	\$9,890,762	\$10,660,141

The three general obligation bonds outstanding at the end of the year were the City Hall Annex at \$700,000, the Library at \$1,470,000, and the Water Phase III Improvement at \$950,000. The Broad Street Underpass, original issue amount of \$3,800,000 in 1979, has been paid in full. 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 consist 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 six OWPC and ten OWDA loans, all of which are being funded by special assessments and water and sewer user fees. Total principal outstanding is \$4,887,780.

Compensated absences as of December 31, 2004 were \$1,063,349, down by \$75,437 from the prior year. This was due to a variety of factors including vacation and sick time usage, the retirement/resignation of employees with accrued balances and a change in the termination percentage in the business type funds.

Current Financial Issues

The City is continuing to make progress 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 \$3,700,000, with \$3,200,000 of the funding being obtained through loans from the Ohio Water Development Authority and a \$500,000 CDBG grant. The design engineering has been completed and construction is expected to commence in early 2005. 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. This activity is scheduled to begin in the spring of 2005.

City of Conneaut, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
Unaudited

The City is continuing to pursue economic development by encouraging development of about 100 acres of land located in the East Side Industrial Park. The land has been harvested for timber and the City received \$140,000 from the sale of the timber. Development of the industrial park will require an extensive investment in infrastructure to make that land attractive to businesses willing to locate their facilities in the industrial park. A grant has been obtained for \$365,000 to assist in the construction of the infrastructure. In addition, design standards for the park are in the development stage.

According to the union contracts, the City will need to fund the proposed wage increase of 4.25 percent in 2006. This increase will cost in excess of \$225,000, with the general fund experiencing the greatest financial impact of around \$140,000.

Local government funding, which has historically been about \$710,000 per year, accounts for almost 20 percent of general fund revenues. This revenue stream has remained stagnant over the past three years, though in prior years this revenue stream grew at an average of 3 percent per year. The financial impact of the proposed cuts will result in lost revenue to the City of approximately \$71,000 per year.

The Ohio Department of Transportation has decided to proceed with the construction of a railroad overpass over Parrish Road. Total cost of this project is anticipated to exceed \$11,000,000. The City's required contribution is 5 percent of the total project cost, which is estimated to be \$580,000. Funding for the City's contribution will be through a low interest loan through the State Infrastructure Bank. This loan has a 10 year term with an interest rate of 3 percent.

While the City's financial condition in 2004 was relatively stable, we have experienced a substantial decrease in general fund unencumbered fund balance over the past three years. In 2001, the City's general fund unencumbered fund balance exceeded \$1,000,000, in contrast to the 2004 ending balance of \$559,406, resulting in a decrease of \$440,594. As part of the annual goals and objectives, the City continues to explore new ways to improve efficiency, cut costs, and increase revenue.

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.

Basic Financial Statements

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City of Conneaut, Ohio

Statement of Net Assets

December 31, 2004

	Primary Government			Component
	Governmental Activities	Business-Type Activities	Total	Unit Conneaut Port Authority
Assets				
Equity in Pooled Cash and Cash Equivalents	\$2,144,597	\$320,861	\$2,465,458	\$0
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	0	207,586
Accounts Receivable	146,696	393,301	539,997	1,090
Intergovernmental Receivable	795,776	0	795,776	0
Prepaid Items	0	0	0	10,563
Materials and Supplies Inventory	94,493	92,990	187,483	2,230
Property Taxes Receivable	1,353,705	0	1,353,705	0
Municipal Income Taxes Receivable	963,361	0	963,361	0
Special Assessments Receivable	1,946,980	69,417	2,016,397	0
Loans Receivable	297,460	0	297,460	0
Due from Component Unit	270,000	0	270,000	0
Nondepreciable Capital Assets	819,254	229,153	1,048,407	38,496
Depreciable Capital Assets, Net	14,000,852	9,880,794	23,881,646	1,461,208
<i>Total Assets</i>	<u>22,833,174</u>	<u>10,986,516</u>	<u>33,819,690</u>	<u>1,721,173</u>
Liabilities				
Accounts Payable	132,903	61,371	194,274	6,503
Contracts Payable	35,254	10,224	45,478	0
Accrued Wages	55,965	20,254	76,219	3,906
Intergovernmental Payable	175,456	42,233	217,689	0
Accrued Interest Payable	64,019	79,303	143,322	4,050
Deferred Revenue	1,264,324	0	1,264,324	49,366
Notes Payable	320,000	220,000	540,000	0
Due to Primary Government	0	0	0	270,000
Long-Term Liabilities:				
Due Within One Year	481,123	434,597	915,720	6,684
Due In More Than One Year	4,796,794	4,178,248	8,975,042	24,407
<i>Total Liabilities</i>	<u>7,325,838</u>	<u>5,046,230</u>	<u>12,372,068</u>	<u>364,916</u>
Net Assets				
Invested in Capital Assets, Net of Related Debt	13,250,480	5,593,036	18,843,516	1,185,389
Restricted for:				
Capital Projects	165,563	0	165,563	0
Debt Service	978,890	0	978,890	0
Street Construction, Maintenance and Repair	427,146	0	427,146	0
Community Housing	102,376	0	102,376	0
Economic Development	476,127	0	476,127	0
Ambulance Services	288,155	0	288,155	0
Other Purposes	279,820	0	279,820	0
Unrestricted (Deficit)	(461,221)	347,250	(113,971)	170,868
<i>Total Net Assets</i>	<u>\$15,507,336</u>	<u>\$5,940,286</u>	<u>\$21,447,622</u>	<u>\$1,356,257</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Activities
For the Year Ended December 31, 2004

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
General Government	\$1,463,838	\$219,503	\$7,216	\$0
Security of Persons and Property	3,039,526	420,384	29,577	0
Public Health Services	320,256	38,628	47,785	0
Leisure Time Activities	92,522	38,274	331	0
Basic Utility Services	32,500	0	0	0
Community Development	583,977	58,627	388,570	156,358
Transportation	2,265,269	0	625,609	121,413
Interest and Fiscal Charges	229,363	0	0	0
<i>Total Governmental Activities</i>	<u>8,027,251</u>	<u>775,416</u>	<u>1,099,088</u>	<u>277,771</u>
Business-Type Activities:				
Water	1,627,086	1,842,561	0	0
Sewer	1,400,021	1,706,244	10,003	0
<i>Total Business-Type Activities</i>	<u>3,027,107</u>	<u>3,548,805</u>	<u>10,003</u>	<u>0</u>
<i>Total - Primary Government</i>	<u>\$11,054,358</u>	<u>\$4,324,221</u>	<u>\$1,109,091</u>	<u>\$277,771</u>
Component Unit				
Conneaut Port Authority	<u>\$453,277</u>	<u>\$306,781</u>	<u>\$0</u>	<u>\$163,196</u>

General Revenues

Property Taxes Levied for:

 General Purposes

 Debt Service

 Other Purposes

Income Tax

 General Purposes

 Capital Outlay

 Street Construction, Maintenance and Repair

 Other Purposes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Change in Net Assets

Net Assets Beginning of Year - Restated (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
(\$1,237,119)	\$0	(\$1,237,119)	\$0
(2,589,565)	0	(2,589,565)	0
(233,843)	0	(233,843)	0
(53,917)	0	(53,917)	0
(32,500)	0	(32,500)	0
19,578	0	19,578	0
(1,518,247)	0	(1,518,247)	0
(229,363)	0	(229,363)	0
(5,874,976)	0	(5,874,976)	0
0	215,475	215,475	0
0	316,226	316,226	0
0	531,701	531,701	0
(5,874,976)	531,701	(5,343,275)	0
0	0	0	16,700
311,222	0	311,222	0
309,290	0	309,290	0
719,660	0	719,660	0
1,960,666	0	1,960,666	0
45,457	0	45,457	0
816,488	0	816,488	0
54,374	0	54,374	0
937,225	0	937,225	0
25,400	0	25,400	1,431
170,568	4,136	174,704	223
5,350,350	4,136	5,354,486	1,654
(524,626)	535,837	11,211	18,354
16,031,962	5,404,449	21,436,411	1,337,903
\$15,507,336	\$5,940,286	\$21,447,622	\$1,356,257

City of Conneaut, Ohio

Balance Sheet

Governmental Funds

December 31, 2004

	General	Street Construction, Maintenance and Repair	General Obligation Bond Retirement	Special Assessment Bond Retirement
Assets				
Equity in Pooled Cash and				
Cash Equivalents	\$410,323	\$20,715	\$529,397	\$293,870
Materials and Supplies Inventory	18,415	72,010	0	0
Accounts Receivable	61,524	0	0	0
Intergovernmental Receivable	423,744	217,705	17,859	0
Property Taxes Receivable	340,709	0	323,737	0
Municipal Income Taxes Receivable	656,563	273,405	0	0
Loans Receivable	0	0	0	0
Due from Component Unit	0	0	0	0
Special Assessments Receivable	164,977	66,615	0	1,715,388
<i>Total Assets</i>	<u>\$2,076,255</u>	<u>\$650,450</u>	<u>\$870,993</u>	<u>\$2,009,258</u>
Liabilities				
Accounts Payable	\$52,459	\$34,358	\$0	\$0
Contracts Payable	15,454	338	0	0
Accrued Wages	41,797	12,472	0	0
Intergovernmental Payable	58,053	22,599	0	0
Accrued Interest Payable	4,239	0	0	0
Deferred Revenue	1,024,847	306,213	341,596	1,715,388
Notes Payable	320,000	0	0	0
<i>Total Liabilities</i>	<u>1,516,849</u>	<u>375,980</u>	<u>341,596</u>	<u>1,715,388</u>
Fund Balances				
Reserved for Encumbrances	18,093	3,097	0	0
Reserved for Loans Receivable	0	0	0	0
Unreserved				
Undesignated, Reported in:				
General Fund	541,313	0	0	0
Special Revenue Funds	0	271,373	0	0
Debt Service Funds	0	0	529,397	293,870
Capital Projects Funds	0	0	0	0
<i>Total Fund Balances</i>	<u>559,406</u>	<u>274,470</u>	<u>529,397</u>	<u>293,870</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,076,255</u>	<u>\$650,450</u>	<u>\$870,993</u>	<u>\$2,009,258</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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Total Governmental Funds Balances	\$3,012,207
		<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
\$890,292	\$2,144,597	Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,820,106
4,068	94,493		
85,172	146,696		
136,468	795,776		
689,259	1,353,705	Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds:	
33,393	963,361	Property and Other Taxes	89,381
297,460	297,460	Municipal Income Taxes	320,952
270,000	270,000	Intergovernmental	523,317
0	1,946,980	Special Assessments	1,946,980
\$2,406,112	\$8,013,068	Charges for Services	132,090
		Total	3,012,720
\$46,086	\$132,903	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(59,780)
19,462	35,254		
1,696	55,965	Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
94,804	175,456	General Obligation Bonds	(2,170,000)
0	4,239	OWDA Loans Payable	(1,539,243)
889,000	4,277,044	OPWC Loans Payable	(31,626)
0	320,000	Notes Payable	(788,000)
1,051,048	5,000,861	Compensated Absences	(749,048)
		Total	(5,277,917)
18,314	39,504	<i>Net Assets of Governmental Activities</i>	\$15,507,336
297,460	297,460		
0	541,313		
608,850	880,223		
0	823,267		
430,440	430,440		
1,355,064	3,012,207		
\$2,406,112	\$8,013,068		

City of Conneaut, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Street Construction, Maintenance and Repair	General Obligation Bond Retirement	Special Assessment Bond Retirement
Revenues				
Property and Other Taxes	\$308,535	\$0	\$323,714	\$0
Municipal Income Tax	1,992,159	829,603	0	0
Special Assessments	55,121	0	0	125,331
Intergovernmental	848,579	426,487	17,859	5,914
Fees, Licenses and Permits	192,832	0	0	0
Fines and Forfeitures	209,927	0	0	0
Rentals	17,000	0	0	0
Charges for Services	0	0	0	0
Contributions and Donations	19,621	0	0	0
Interest	22,974	14	0	0
Other	138,581	0	0	0
<i>Total Revenues</i>	<u>3,805,329</u>	<u>1,256,104</u>	<u>341,573</u>	<u>131,245</u>
Expenditures				
Current:				
General Government	1,314,958	0	7,779	4,623
Security of Persons and Property	1,907,495	0	0	0
Public Health Services	289,261	0	0	0
Leisure Time Activities	10,280	0	0	0
Community Development	63,591	0	0	0
Basic Utility Services	0	0	0	0
Transportation	0	1,309,688	0	0
Capital Outlay	0	0	0	0
Debt Service:				
Principal Retirement	80,000	360,500	355,000	94,944
Interest and Fiscal Charges	8,615	5,620	140,965	65,782
<i>Total Expenditures</i>	<u>3,674,200</u>	<u>1,675,808</u>	<u>503,744</u>	<u>165,349</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>131,129</u>	<u>(419,704)</u>	<u>(162,171)</u>	<u>(34,104)</u>
Other Financing Sources (Uses)				
General Obligation Notes Issued	230,000	288,000	0	0
OPWC Loans Issued	0	31,626	0	0
Transfers In	0	170,000	0	0
Transfers Out	(279,950)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>(49,950)</u>	<u>489,626</u>	<u>0</u>	<u>0</u>
<i>Net Change in Fund Balances</i>	81,179	69,922	(162,171)	(34,104)
<i>Fund Balances Beginning of Year</i>	<u>478,227</u>	<u>204,548</u>	<u>691,568</u>	<u>327,974</u>
<i>Fund Balances End of Year</i>	<u>\$559,406</u>	<u>\$274,470</u>	<u>\$529,397</u>	<u>\$293,870</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, 2004*

Other Governmental Funds	Total Governmental Funds		
		Net Change in Fund Balances - Total Governmental Funds	\$26,885
		<i>Amounts reported for governmental activities in the statement of activities are different because</i>	
\$705,031	\$1,337,280	Governmental funds report capital outlays as expenditures.	
101,433	2,923,195	However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
0	180,452	Capital Outlay	123,678
930,778	2,229,617	Depreciation	(891,772)
22,566	215,398		
56,317	266,244		
31,175	48,175		
206,512	206,512		
11,480	31,101		
2,412	25,400		
31,987	170,568		
		Total	(768,094)
2,099,691	7,633,942	Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	(5,921)
		Revenue in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	
0	1,327,360	Property and Other Taxes	2,892
1,049,036	2,956,531	Municipal Income Taxes	(46,210)
27,038	316,299	Intergovernmental	(11,524)
63,627	73,907	Special Assessments	(115,562)
462,605	526,196	Charges for Services	39,087
32,500	32,500		
186,475	1,496,163		
291,904	291,904		
		Total	(131,317)
290,000	1,180,444	Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,180,444
4,397	225,379		
2,407,582	8,426,683	In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(3,984)
		Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	(3,013)
(307,891)	(792,741)	Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets are not reported as revenues in the statement of activities.	
270,000	788,000	Proceeds of Notes	(788,000)
0	31,626	Proceeds of OPWC Loans	(31,626)
109,950	279,950		
0	(279,950)		
379,950	819,626	Total	(819,626)
72,059	26,885		
1,283,005	2,985,322		
\$1,355,064	\$3,012,207		
		Change in Net Assets of Governmental Activities	(\$524,626)

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property and Other Taxes	\$276,850	\$276,850	\$308,535	\$31,685
Municipal Income Tax	1,942,400	1,942,400	1,963,439	21,039
Special Assessments	62,000	62,000	55,121	(6,879)
Intergovernmental	871,250	871,250	871,704	454
Fees, Licenses and Permits	195,520	195,520	192,832	(2,688)
Fines and Forfeitures	195,030	195,030	211,881	16,851
Rentals	17,000	17,000	17,000	0
Contributions and Donations	3,000	3,000	19,621	16,621
Interest	18,000	18,000	22,974	4,974
Other	21,000	20,998	138,581	117,583
<i>Total Revenues</i>	3,602,050	3,602,048	3,801,688	199,640
Expenditures				
Current:				
General Government	1,229,637	1,391,323	1,355,264	36,059
Security of Persons and Property	2,065,587	2,157,042	2,108,886	48,156
Public Health Services	284,606	318,210	303,544	14,666
Leisure Time Activities	12,320	12,320	10,319	2,001
Community Development	70,173	69,298	65,533	3,765
Debt Service:				
Principal Retirement	460,000	460,000	460,000	0
Interest and Fiscal Charges	7,594	6,218	6,198	20
<i>Total Expenditures</i>	4,129,917	4,414,411	4,309,744	104,667
<i>Excess of Revenues Under Expenditures</i>	(527,867)	(812,363)	(508,056)	304,307
Other Financing Sources (Uses)				
General Obligation Notes Issued	380,000	550,000	550,000	0
Advances In	8,275	8,275	8,275	0
Transfers Out	(336,750)	(336,750)	(279,950)	56,800
<i>Total Other Financing Sources (Uses)</i>	51,525	221,525	278,325	56,800
<i>Net Change in Fund Balance</i>	(476,342)	(590,838)	(229,731)	361,107
<i>Fund Balance Beginning of Year</i>	514,673	514,673	514,673	0
Prior Year Encumbrances Appropriated	84,083	84,083	84,083	0
<i>Fund Balance End of Year</i>	\$122,414	\$7,918	\$369,025	\$361,107

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Municipal Income Tax	\$808,800	\$808,800	\$817,643	\$8,843
Intergovernmental	398,374	398,374	414,732	16,358
Interest	0	0	14	14
<i>Total Revenues</i>	<u>1,207,174</u>	<u>1,207,174</u>	<u>1,232,389</u>	<u>25,215</u>
Expenditures				
Current:				
Transportation	1,414,294	1,438,589	1,428,831	9,758
Debt Service:				
Principal Retirement	360,500	360,500	360,500	0
Interest and Fiscal Charges	6,092	5,620	5,620	0
<i>Total Expenditures</i>	<u>1,780,886</u>	<u>1,804,709</u>	<u>1,794,951</u>	<u>9,758</u>
<i>Excess of Revenues Under Expenditures</i>	<u>(573,712)</u>	<u>(597,535)</u>	<u>(562,562)</u>	<u>34,973</u>
Other Financing Sources				
General Obligation Notes Issued	288,000	288,000	288,000	0
OPWC Loans Issued	31,626	31,626	31,626	0
Transfers In	200,000	200,000	170,000	(30,000)
<i>Total Other Financing Sources</i>	<u>519,626</u>	<u>519,626</u>	<u>489,626</u>	<u>(30,000)</u>
<i>Net Change in Fund Balance</i>	(54,086)	(77,909)	(72,936)	4,973
<i>Fund Balance Beginning of Year</i>	34,048	34,048	34,048	0
Prior Year Encumbrances Appropriated	44,244	44,244	44,244	0
<i>Fund Balance End of Year</i>	<u>\$24,206</u>	<u>\$383</u>	<u>\$5,356</u>	<u>\$4,973</u>

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	Business-Type Activities		
	Water	Sewer	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$156,057	\$164,804	\$320,861
Materials and Supplies Inventory	57,015	35,975	92,990
<i>Receivables:</i>			
Accounts	206,015	187,286	393,301
Special Assessments	27,863	41,554	69,417
<i>Total Current Assets</i>	<u>446,950</u>	<u>429,619</u>	<u>876,569</u>
<i>Noncurrent Assets:</i>			
Nondepreciable Capital Assets	12,280	216,873	229,153
Depreciable Capital Assets, Net	4,601,898	5,278,896	9,880,794
<i>Total Noncurrent Assets</i>	<u>4,614,178</u>	<u>5,495,769</u>	<u>10,109,947</u>
<i>Total Assets</i>	<u>5,061,128</u>	<u>5,925,388</u>	<u>10,986,516</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	28,729	32,642	61,371
Contracts Payable	6,103	4,121	10,224
Accrued Wages	10,631	9,623	20,254
Intergovernmental Payable	21,083	21,150	42,233
Compensated Absences Payable	28,408	20,410	48,818
Accrued Interest Payable	12,314	66,989	79,303
General Obligation Bonds Payable	70,000	0	70,000
OPWC Loans Payable	25,174	15,828	41,002
OWDA Loans Payable	23,967	240,810	264,777
Notes Payable	10,000	220,000	230,000
<i>Total Current Liabilities</i>	<u>236,409</u>	<u>631,573</u>	<u>867,982</u>
<i>Long-Term Liabilities (net of current portion):</i>			
Compensated Absences Payable	135,874	129,609	265,483
General Obligation Bonds Payable	881,633	0	881,633
OPWC Loans Payable	395,385	92,478	487,863
OWDA Loans Payable	364,333	2,158,936	2,523,269
Notes Payable	20,000	0	20,000
<i>Total Long-Term Liabilities</i>	<u>1,797,225</u>	<u>2,381,023</u>	<u>4,178,248</u>
<i>Total Liabilities</i>	<u>2,033,634</u>	<u>3,012,596</u>	<u>5,046,230</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,825,319	2,767,717	5,593,036
Unrestricted	202,175	145,075	347,250
<i>Total Net Assets</i>	<u>\$3,027,494</u>	<u>\$2,912,792</u>	<u>\$5,940,286</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, 2004*

	Business-Type Activities		
	Water	Sewer	Total
Operating Revenues			
Charges for Services	\$1,820,329	\$1,693,944	\$3,514,273
Tap-In Fees	16,682	12,300	28,982
Rentals	5,550	0	5,550
Other	2,813	1,323	4,136
<i>Total Operating Revenues</i>	<u>1,845,374</u>	<u>1,707,567</u>	<u>3,552,941</u>
Operating Expenses			
Personal Services	790,561	623,614	1,414,175
Purchased Services	330,992	334,437	665,429
Contractual Services	65,071	68,043	133,114
Materials and Supplies	221,523	84,795	306,318
Depreciation	123,331	158,616	281,947
Other	1,238	1,605	2,843
<i>Total Operating Expenses</i>	<u>1,532,716</u>	<u>1,271,110</u>	<u>2,803,826</u>
<i>Operating Income</i>	<u>312,658</u>	<u>436,457</u>	<u>749,115</u>
Non-Operating Revenues (Expenses)			
Interest and Fiscal Charges	(94,370)	(128,911)	(223,281)
Operating Grants	0	10,003	10,003
<i>Total Non-Operating Revenues (Expenses)</i>	<u>(94,370)</u>	<u>(118,908)</u>	<u>(213,278)</u>
<i>Change in Net Assets</i>	218,288	317,549	535,837
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>2,809,206</u>	<u>2,595,243</u>	<u>5,404,449</u>
<i>Net Assets End of Year</i>	<u><u>\$3,027,494</u></u>	<u><u>\$2,912,792</u></u>	<u><u>\$5,940,286</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, 2004

	Business-Type Activities		
	Water	Sewer	Total
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities			
Cash Received from Customers	\$1,705,494	\$1,588,740	\$3,294,234
Cash Received from Tap-In Fees	16,682	12,300	28,982
Cash Received from Special Assessments	4,489	1,668	6,157
Cash Received from Rentals	5,550	0	5,550
Other Cash Receipts	2,813	1,323	4,136
Cash Payments to Employees for Services	(838,014)	(704,185)	(1,542,199)
Cash Payments for Goods and Services	(615,480)	(517,311)	(1,132,791)
Other Cash Payments	(1,238)	(1,605)	(2,843)
<i>Net Cash Provided by Operating Activities</i>	<u>280,296</u>	<u>380,930</u>	<u>661,226</u>
Cash Flows from Capital and Related Financing Activities			
Proceeds from Notes	0	220,000	220,000
Proceeds from OPWC Loans	0	37,833	37,833
Principal Paid on OWDA Loans	(22,957)	(228,767)	(251,724)
Interest Paid on OWDA Loans	(17,643)	(65,600)	(83,243)
Principal Paid on OPWC Loans	(25,174)	(13,936)	(39,110)
Principal Paid on General Obligation Bond	(70,000)	0	(70,000)
Interest Paid on General Obligation Bond	(49,760)	0	(49,760)
Principal Paid on Short-term Notes	0	(240,000)	(240,000)
Interest Paid on Short-term Notes	0	(68,821)	(68,821)
Principal Paid on Long-term Note	(10,000)	0	(10,000)
Payments for Capital Acquisitions	(22,070)	(51,014)	(73,084)
<i>Net Cash Used in Capital and Related Financing Activities</i>	<u>(217,604)</u>	<u>(410,305)</u>	<u>(627,909)</u>
Cash Flows from Noncapital Financing Activities			
Operating Grants	0	10,152	10,152
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	62,692	(19,223)	43,469
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>93,365</u>	<u>184,027</u>	<u>277,392</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$156,057</u>	<u>\$164,804</u>	<u>\$320,861</u>

(continued)

City of Conneaut, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2004

	Business-Type Activities		
	Water	Sewer	Total
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$312,658	\$436,457	\$749,115
Adjustments:			
Depreciation	123,331	158,616	281,947
(Increase) Decrease in Assets:			
Accounts Receivable	(114,835)	(105,204)	(220,039)
Special Assessments Receivable	4,318	1,668	5,986
Intergovernmental Receivable	171	0	171
Materials and Supplies Inventory	20,573	(6,255)	14,318
Increase (Decrease) in Liabilities:			
Accounts Payable	347	31,098	31,445
Contracts Payable	(17,120)	(17,371)	(34,491)
Accrued Wages	(17,912)	(14,694)	(32,606)
Compensated Absences Payable	(22,687)	(55,763)	(78,450)
Intergovernmental Payable	(8,548)	(47,622)	(56,170)
<i>Total Adjustments</i>	(32,362)	(55,527)	(87,889)
<i>Net Cash Provided by Operating Activities</i>	\$280,296	\$380,930	\$661,226

See accompanying notes to the basic financial statements

City Of Conneaut, Ohio
Statement of Fiduciary Net Assets
Fiduciary Funds
December 31, 2004

	Private Purpose Trust	
	Cemetery	Agency
Assets		
Equity in Pooled Cash and Cash Equivalents	\$29,426	\$15,447
Cash and Cash Equivalents in Segregated Accounts	0	11,499
<i>Total Assets</i>	29,426	\$26,946
Liabilities		
Deposits Held and Due to Others	0	\$26,946
Net Assets		
Held in Trust for Endowment	15,700	
Unrestricted	13,726	
<i>Total Net Assets</i>	\$29,426	

See accompanying notes to the basic financial statements

City of Conneaut, Ohio
Statement of Changes in Fiduciary Net Assets
Fiduciary Fund
For the Year Ended December 31, 2004

	Private Purpose Trust
	Cemetery
Additions	
Interest	\$449
Deductions	
Contractual Services	128
<i>Change in Net Assets</i>	321
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	29,105
<i>Net Assets End of Year</i>	\$29,426

See accompanying notes to the basic financial statements

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City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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 agencies and 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, 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 the Port Authority is fiscally dependent on the City, 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 20 of the Basic Financial Statements.

The City is associated with the Conneaut Public Library, a related organization. This organization is presented in Note 18 to the basic financial statements.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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 unless those pronouncements 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 more 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, 2004

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 its portion of municipal income tax collections and 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 for 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. The City has no internal service funds.

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, 2004

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.

The private purpose trust fund is reported using a flow of economic resources measurement focus.

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, 2004

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, 2004, but which were levied to finance year 2005 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 are maintained in this pool. Individual fund integrity is maintained through City records. 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 2004, investments were limited to nonnegotiable certificates of deposit 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 Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's share price which is the price the investment could be sold for on December 31, 2004.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2004 amount to \$22,974 which includes \$18,822 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, 2004

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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 enterprise 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. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition 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. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. 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	25 - 40 years
Water and Sewer Lines	50 years

For 2004, the City's infrastructure consists of traffic lights and roads and includes infrastructure acquired prior to December 31, 1980. The infrastructure assets will be completed in 2005 with the inclusion of bridges and storm sewers.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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 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, 2004

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. The government-wide statement of net assets reports \$2,718,077 of restricted net assets, of which \$1,378,038 is restricted by enabling legislation. Net assets restricted for other purposes include 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. 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.

P. 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.

Q. 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.

R. 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

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

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 and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

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 2004, the City has implemented GASB Statement No. 39, "Determining Whether Certain Organizations are Component Units", GASB Statement No. 46, "Net Assets Restricted by Enabling Legislation" and GASB Technical Bulletin No. 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers.

GASB Statement No. 39 states that entities for which a primary government is not financially accountable may still be reported as component units based on the nature and significance of their relationship with the primary government.

GASB Statement No. 46 clarifies how enabling legislation should be defined for determining restricted net assets.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

The implementation of GASB Statement No. 39, GASB Statement No. 46 and GASB Technical Bulletin No. 2004-2 did not affect the presentation of the financial statements of the City.

B. Restatement of Net Assets

During 2004, the City of Conneaut restated governmental capital asset totals from the inclusion of roads and adjustments to beginning balances in the amount of \$12,822,186. This restatement changed ending net assets at December 31, 2003 from \$3,209,776 to \$16,031,962.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

During 2004, it was determined that sewer capital assets were understated. This restatement had the following effect on net assets as they were previously reported.

	Water	Sewer	Business-Type Activities
Net Assets, December 31, 2003	\$2,809,206	\$2,407,228	\$5,216,434
Capital Assets	0	188,015	188,015
Adjusted Net Assets, December 31, 2003	\$2,809,206	\$2,595,243	\$5,404,449

During 2004, the City of Conneaut determined that accounts payable were overstated in the cemetery private purpose trust fund in the amount of \$6,800. This restatement changed ending net assets at December 31, 2003 from \$22,305 to \$29,105.

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. Unreported cash represents amounts received but not included as revenue on the budgetary statements, but reported on the operating statements prepared using GAAP.
5. Advances-In and Advances-Out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Proceeds from and principal payment on short-term note obligations are reported on the operating statement (budget) rather than on the balance sheet (GAAP).

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:

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

	General	Street Construction Maintenance and Repair
GAAP Basis	\$81,179	\$69,922
Net Adjustment for Revenue Accruals	83,492	5,684
Net Adjustment for Expenditures Accruals	(214,062)	(103,734)
Beginning Unrecorded Cash	(86,949)	(29,349)
Ending Unrecorded Cash	(184)	(50)
Proceeds of Notes	320,000	0
Principal Retirement	(380,000)	0
Advances In	8,275	0
Encumbrances	(41,482)	(15,409)
Budget Basis	(\$229,731)	(\$72,936)

Note 5 - Accountability

The following funds had deficit fund balances as of December 31, 2004:

<i>Special Revenue Funds</i>	
Community Housing Improvement Program	\$17,971
Fire Pension	37,795
<i>Capital Projects Fund</i>	
Formula Grant	1,300

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, 2004

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, 2004

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 \$1,052,014 and the bank balance was \$1,130,642. Of the bank balance:

1. \$128,903 was covered by federal depository insurance.
2. \$1,001,739 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. STAROhio 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, 2004 is \$1,469,816.

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>	\$2,521,830	\$0
Investments of cash management pool:		
STAROhio	(1,469,816)	1,469,816
<i>GASB Statement No. 3</i>	\$1,052,014	\$1,469,816

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 7 - Receivables

Receivables at December 31, 2004, 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 \$1,715,388 in the special assessment bond retirement fund, \$27,863 in the water enterprise fund and \$41,554 in the sewer enterprise fund. At December 31, 2004, the amount of delinquent special assessments was \$107,573.

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 2004 for real and public utility property taxes represents collections of the 2003 taxes. Property tax payments received during 2004 for tangible personal property (other than public utility property) are for 2004 taxes.

2004 real property taxes are levied after October 1, 2004, on the assessed value as of January 1, 2004, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2004 real property taxes are collected in and intended to finance 2004.

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. 2004 public utility property taxes which became a lien December 31, 2003, are levied after October 1, 2004, and are collected in 2004 with real property taxes.

2004 tangible personal property taxes are levied after October 1, 2003, on the value as of December 31, 2003. Collections are made in 2004. 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, 2004, was \$20.00 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2004 property tax receipts were based are as follows:

Real Property	\$139,463,280
Tangible Personal Property	18,222,780
Public Utility Property	<u>10,951,410</u>
Total Assessed Values	<u><u>\$168,637,470</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, 2004

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, 2004 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 2004 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:

<u>Governmental Activities</u>	<u>Amounts</u>
Local Government	\$396,219
Gasoline Tax	179,126
Permissive Tax	74,774
Homestead and Rollback	74,573
Auto License Tax	56,230
Hotel Tax	9,500
Grants	3,000
Estate Tax	2,354
Total	<u><u>\$795,776</u></u>

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 8 - Capital Assets

Capital asset activity for the year ended December 31, 2004, was as follows:

Governmental Activities	Balance 12/31/2003	Additions	Deductions	Balance 12/31/2004
<i>Capital Assets not being Depreciated:</i>				
Land	\$580,048	\$0	\$0	\$580,048
Construction in Progress	239,206	0	0	239,206
<i>Total Capital Assets not being Depreciated</i>	<u>819,254</u>	<u>0</u>	<u>0</u>	<u>819,254</u>
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	1,709,164	0	0	1,709,164
Equipment	2,069,431	48,924	(44,942)	2,073,413
Vehicles	3,718,661	74,754	0	3,793,415
Furniture and Fixtures	28,097	0	0	28,097
Infrastructure:				
Traffic Lights	110,280	0	0	110,280
Roads	15,844,654	0	0	15,844,654
<i>Total Capital Assets being Depreciated</i>	<u>23,480,287</u>	<u>123,678</u>	<u>(44,942)</u>	<u>23,559,023</u>
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(1,026,597)	(49,715)	0	(1,076,312)
Equipment	(1,372,413)	(141,116)	39,021	(1,474,508)
Vehicles	(3,288,108)	(192,882)	0	(3,480,990)
Furniture and Fixtures	(19,274)	(1,557)	0	(20,831)
Infrastructure:				
Traffic Lights	(46,263)	(1,134)	0	(47,397)
Roads	(2,952,765)	(505,368)	0	(3,458,133)
<i>Total Accumulated Depreciation</i>	<u>(8,705,420)</u>	<u>(891,772) *</u>	<u>39,021</u>	<u>(9,558,171)</u>
Total Capital Assets being Depreciated, Net	<u>14,774,867</u>	<u>(768,094)</u>	<u>(5,921)</u>	<u>14,000,852</u>
Governmental Activities Capital Assets, Net	<u>\$15,594,121</u>	<u>(\$768,094)</u>	<u>(\$5,921)</u>	<u>\$14,820,106</u>

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Business Type Activities:	Balance 12/31/2003	Additions	Deductions	Balance 12/31/2004
<i>Capital Assets not being Depreciated:</i>				
Land	\$12,860	\$0	\$0	\$12,860
Construction in Progress	188,015	28,278	0	216,293
<i>Total Capital Assets not being Depreciated</i>	200,875	28,278	0	229,153
<i>Capital Assets being Depreciated:</i>				
Buildings and Improvements	645,906	0	(13,500)	632,406
Equipment	3,895,584	44,806	(4,598)	3,935,792
Vehicles	423,961	0	0	423,961
Infrastructure:				
Water and Sewer Lines	8,662,685	0	0	8,662,685
<i>Total Capital Assets being Depreciated</i>	13,628,136	44,806	(18,098)	13,654,844
<i>Less Accumulated Depreciation:</i>				
Buildings and Improvements	(594,519)	(3,749)	13,500	(584,768)
Equipment	(1,846,735)	(126,701)	4,598	(1,968,838)
Vehicles	(403,809)	(7,050)	0	(410,859)
Infrastructure:				
Water and Sewer Lines	(665,138)	(144,447)	0	(809,585)
<i>Total Accumulated Depreciation</i>	(3,510,201)	(281,947)	18,098	(3,774,050)
Total Capital Assets being Depreciated, Net	10,117,935	(237,141)	0	9,880,794
Business Type Activities Capital Assets, Net	\$10,318,810	(\$208,863)	\$0	\$10,109,947

* Depreciation expense was charged to governmental functions as follows:

General Government	\$54,411
Security of Persons and Property	181,109
Leisure Time Activities	18,615
Community Environment	6,883
Transportation	630,754
Total Depreciation Expense	\$891,772

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 9 - Notes Payable

Changes in the City's note activity for the year ended December 31, 2004, were as follows:

	<u>Outstanding</u> 12/31/2003	<u>Additions</u>	<u>(Reductions)</u>	<u>Outstanding</u> 12/31/2004
<i>General Fund:</i>				
Prison Land, 2.59%	\$180,000	\$140,000	(\$180,000)	\$140,000
Madison Street Storm Sewer, 1.60%	<u>200,000</u>	<u>180,000</u>	<u>(200,000)</u>	<u>180,000</u>
<i>Total General Fund</i>	<u>380,000</u>	<u>320,000</u>	<u>(380,000)</u>	<u>320,000</u>
<i>Enterprise Fund:</i>				
Waste Water Improvement, 1.60%	<u>240,000</u>	<u>220,000</u>	<u>(240,000)</u>	<u>220,000</u>
<i>Total Notes</i>	<u>\$620,000</u>	<u>\$540,000</u>	<u>(\$620,000)</u>	<u>\$540,000</u>

In 2004, the City issued \$140,000, \$180,000 and \$220,000 in various purpose improvement notes to finance various projects throughout the City. These projects have been completed by December 31, 2004. These notes mature on June 25, 2005.

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 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 with ten or more years of service can be paid for one quarter of his/her accumulated sick hours. The 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, 2004

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				
<i>General Obligation Bonds:</i>				
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
<i>Special Assessment Loans:</i>				
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
<i>Ohio Public Works Commission Loans:</i>				
Under Ridge Road Culvert	2004	0.00	31,626	2025
<i>Notes:</i>				
Fire Truck	2004	1.81	60,000	2005
Street Equipment	2004	1.81	212,000	2005
Street Equipment	2004	1.81	76,000	2005
Environmental Cleanup	2004	4.00	170,000	2009
Conneaut Port Authority - Marina	2004	2.61	270,000	2005
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
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
Madison Sanitary Sewer	2004	0.00	37,833	2024
<i>Note:</i>				
Prison Water Line Improvement	1997	0.00	100,000	2007
<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, 2004

A schedule of changes in bonds and other long-term obligations of the City during 2004 follows:

	Outstanding 12/31/2003	Additions	Reductions	Outstanding 12/31/2004	Amount Due In one Year
Governmental Activities:					
<i>General Obligation Bonds</i>					
Broad Street Underpass	\$150,000	\$0	\$150,000	\$0	\$0
City Hall Annex	800,000	0	100,000	700,000	100,000
Library	1,575,000	0	105,000	1,470,000	105,000
Total General Obligation Bonds	2,525,000	0	355,000	2,170,000	205,000
<i>Special Assessment OWDA Loans:</i>					
East Conneaut Sewer Phase II	497,153	0	29,520	467,633	30,761
East/West Gateway	341,512	0	27,332	314,180	28,660
Gateway Phase II	55,863	0	4,206	51,657	4,408
I-90 Sewer	133,005	0	7,714	125,291	8,024
East Conneaut Sewer Phase III	606,654	0	26,172	580,482	27,096
Total Special Assessment OWDA Loans	1,634,187	0	94,944	1,539,243	98,949
<i>OPWC Loans:</i>					
Under Ridge Road Culvert	0	31,626	0	31,626	791
<i>Long - Term Notes Payable:</i>					
Fire Truck	80,000	60,000	80,000	60,000	0
Street Equipment	272,000	212,000	272,000	212,000	0
Street Equipment	88,500	76,000	88,500	76,000	0
Environmental Cleanup	0	170,000	0	170,000	0
Conneaut Port Authority - Marina	290,000	270,000	290,000	270,000	0
Total Long - Term Notes Payable	730,500	788,000	730,500	788,000	0
Compensated Absences	746,035	57,185	54,172	749,048	176,383
Total Governmental Activities					
Long-Term Obligations	\$5,635,722	\$876,811	\$1,234,616	\$5,277,917	\$481,123
Business-Type Activities:					
<i>Special Assessment OWDA Loans</i>					
East Conneaut Sewer Phase II	\$165,718	\$0	\$9,840	\$155,878	\$10,254
I-90 Sewer	74,815	0	4,339	70,476	4,514
East Conneaut Sewer Phase III	133,167	0	5,745	127,422	5,948
Total Special Assessment OWDA Loans	373,700	0	19,924	353,776	20,716
<i>OWDA Loans</i>					
Wastewater Plant Improvement	406,741	0	31,906	374,835	33,581
Wastewater Plant Improvement	364,793	0	23,943	340,850	26,113
Wastewater	1,418,820	0	149,340	1,269,480	156,594
Water III	411,257	0	22,957	388,300	23,967
Dechlorination Project	64,459	0	3,654	60,805	3,806
Total OWDA Loans	2,666,070	0	231,800	2,434,270	244,061
Total OWDA Obligations	\$3,039,770	\$0	\$251,724	\$2,788,046	\$264,777

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

	Outstanding 12/31/2003	Additions	Reductions	Outstanding 12/31/2004	Amount Due In one Year
Business-Type Activities (continued)					
<i>OPWC Loans</i>					
East Conneaut Sewer Phase II	\$3,858	\$0	\$1,543	\$2,315	\$1,543
Wastewater Treatment Plant	80,551	0	12,393	68,158	12,393
South Conneaut Water Tank	327,250	0	19,250	308,000	19,250
Liberty Water Line	118,483	0	5,924	112,559	5,924
Madison Sanitary Sewer	0	37,833	0	37,833	1,892
<i>Total OPWC Loans</i>	<u>530,142</u>	<u>37,833</u>	<u>39,110</u>	<u>528,865</u>	<u>41,002</u>
<i>Notes Payable</i>					
Prison Water Line Improvement	40,000	0	10,000	30,000	10,000
<i>General Obligation Bonds</i>					
Water III	1,020,000	0	70,000	950,000	70,000
Unamortized Premium	1,756	(123)	0	1,633	0
<i>Total Bonds</i>	<u>1,021,756</u>	<u>(123)</u>	<u>70,000</u>	<u>951,633</u>	<u>70,000</u>
Compensated Absences	392,751	87,542	165,992	314,301	48,818
<i>Total Business-Type Activities</i>					
<i>Long-Term Obligations</i>	<u>\$5,024,419</u>	<u>\$125,252</u>	<u>\$536,826</u>	<u>\$4,612,845</u>	<u>\$434,597</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 business-type notes will be paid with charges for services revenues from the water enterprise fund.

The City's overall legal debt margin was \$14,555,840 with an unvoted debt margin of \$6,123,967 at December 31, 2004. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2004, are as follows:

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

<i>Governmental Activities</i>							
	General Obligation Bonds		Special Assessment Loans		OPWC Loans	Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Principal	Interest
2005	\$205,000	\$120,313	\$98,949	\$61,777	\$791	\$618,000	\$19,579
2006	205,000	108,660	103,128	57,598	1,582	0	6,800
2007	205,000	97,007	107,486	53,240	1,582	56,000	62,800
2008	205,000	85,355	112,028	48,697	1,582	57,000	61,560
2009	205,000	73,650	116,769	43,958	1,582	57,000	59,280
2010-2014	725,000	206,212	610,710	141,763	7,910	0	0
2015-2019	420,000	53,027	342,405	37,903	7,910	0	0
2020-2024	0	0	47,768	1,200	7,910	0	0
2025	0	0	0	0	777	0	0
Total	\$2,170,000	\$744,224	\$1,539,243	\$446,136	\$31,626	\$788,000	\$210,019

<i>Business-Type Activities</i>								
	General Obligation Bonds		Special Assessment Loans		OWDA Loans		OPWC Loans	Notes Payable
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Principal
2005	\$70,000	\$46,575	\$20,715	\$13,950	\$244,060	\$128,738	\$41,002	\$10,000
2006	70,000	43,390	21,537	13,128	257,009	115,789	40,231	10,000
2007	70,000	40,207	22,393	12,272	270,686	82,111	39,459	10,000
2008	70,000	37,020	23,282	11,383	285,136	87,662	39,459	0
2009	70,000	33,835	24,207	10,458	300,409	72,389	39,459	0
2010-2014	340,000	116,402	133,815	37,069	967,013	139,708	141,523	0
2015-2019	260,000	32,825	97,339	10,476	109,957	7,226	135,330	0
2020-2024	0	0	10,488	264	0	0	52,402	0
Total	\$950,000	\$350,254	\$353,776	\$109,000	\$2,434,270	\$633,623	\$528,865	\$30,000

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 2004, the City contracted with Love Insurance Company for various types of insurance as follows:

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Type of Coverage	Coverage
Property/Boilers and Machinery	\$17,820,108
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 of Conneaut participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The traditional plan is a cost-sharing, multiple-employer defined benefit pension plan. The member-directed plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the member directed plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The combined plan is a cost-sharing, multiple-employer defined benefit pension plan 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 East Town Street, Columbus, OH 43215-4642 or by calling (614) 222-6705 or (800) 222-7377.

For the year ended December 31, 2004, 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 2004 was 9.55 percent, except for those plan members in law enforcement or public safety. For those classifications, the City's pension contributions were 12.7 percent of covered payroll. The Ohio Revised Code provides statutory authority for member and employer contributions.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

The City's required contributions for pension obligations to the traditional and combined plans for the years ended December 31, 2004, 2003, and 2002 were \$148,496, \$134,127, and \$216,418 respectively; 86.86 percent has been contributed for 2004 and 100 percent for 2003 and 2002. There were no contributions to the member-directed plan for 2004.

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 Fund for police and firefighters were \$95,819 and \$90,448 for the year ended December 31, 2004, \$102,591 and \$90,080 for the year ended December 31, 2003 and \$128,600 and \$96,493 for the year ended December 31, 2002. The full amount has been contributed for 2003 and 2002. 70.07 percent and 70.88 percent has been contributed for 2004.

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 2004 local government employer contribution rate was 13.55 percent of covered payroll (16.7 percent for public safety and law enforcement); 4.00 percent of covered payroll was the portion that was used to fund health care.

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, 2003, 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 between 1.00 and 6.00 percent annually for the next eight years and 4.00 percent annually after eight years.

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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

The number of active contributing participants in the traditional and combined plans was 369,885. Actual employer contributions for 2004 which were used to fund postemployment benefits were \$62,197. The actual contribution and the actuarially required contribution amounts are the same. OPERS's net assets available for payment of benefits at December 31, 2003, (the latest information available) were \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to increasing health care costs.

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 2004 and 2003. In addition, since July 1, 1992, most retirees and survivors 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.

The City's actual contributions for 2004 that were used to fund postemployment benefits were \$63,200 for police and \$43,137 for firefighters. The OP&F's total health care expense for the year ended December 31, 2003, (the latest information available) was \$150,853,148, which was net of member contributions of \$17,207,506. The number of OP&F participants eligible to receive health care benefits as of December 31, 2003, was 13,662 for police and 10,474 for firefighters.

Note 15 – Related Party Transactions

The Conneaut Port Authority, a component unit of the City of Conneaut, owes the City \$270,000 as of December 31, 2004. During 2004, the Port Authority paid the City \$24,887, the amount of the principal and interest on the note. The financial statements reflect \$270,000 in "due from component unit".

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 16 – Interfund Transfers

Interfund transfers during 2004 consisted of the following:

<u>Transfer To</u>	<u>Transfer From General</u>
Street Construction, Maintenance and Repair	<u>\$170,000</u>
<i>Other Non-Major Funds</i>	
Litter	20,000
Tree Commission	750
Demolition	5,000
Fire Pension	<u>84,200</u>
<i>Total Other Non-Major Funds</i>	<u>109,950</u>
<i>Total All Funds</i>	<u><u>\$279,950</u></u>

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 provide 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.

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, 2004.

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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

Note 18 – Related Organization

The Conneaut Public Library is a distinct political subdivision of the State of Ohio created under Chapter 3375 of the Ohio Revised Code. The Library is governed by a Board of Trustees appointed by the City of Conneaut. The Board of Trustees possesses its own contracting and budgeting authority, hires and fires personnel and does not depend on the City for operational subsidies. Although the City does serve as the taxing authority and may issue tax related debt on behalf of the Library, its role is limited to a ministerial function. The determination to request approval of a tax, the rate and the purpose are discretionary decisions made solely by the Board of Trustees. Financial information can be obtained from the Conneaut Public Library, Mary Zappitelli, Board President, 304 Buffalo Street, Conneaut, Ohio 44030.

Note 19 – Subsequent Event

The City issued a \$293,000, 2.90 percent various purpose note and a \$200,000, 2.90 percent marina note on February 10, 2005. These notes will mature on February 9, 2006.

Note 20 – 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 Authority 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.

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.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

D. Cash and Cash Equivalents

The Conneaut Port Authority maintains interest bearing depository accounts and non-interest bearing depository accounts. All funds of the Authority are maintained in these accounts. These depository accounts are presented as "Equity in Pooled Cash and Cash Equivalents in Segregated Accounts."

E. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2004, 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.

F. 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.

G. Capital Assets

Capital assets utilized by the Conneaut Port Authority are reported on the statement of net assets. All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The Authority was able to estimate the historical cost for the initial reporting of assets by backtrending (i.e., estimating the current replacement cost of the assets to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition 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, 2004

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 \$207,586 and the bank balance was \$207,586. 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, 2004 was as follows:

	Balance 12/31/03	Additions	Deletions	Balance 12/31/04
Capital Assets, not being Depreciated				
Land	\$38,496	\$0	\$0	\$38,496
Construction in Progress	231,290	10,128	241,418	0
Total	269,786	10,128	241,418	38,496
 Capital Assets, being Depreciated				
Marinas, Docks and Equipment	2,327,811	300,416	0	2,628,227
 Less: Accumulated Depreciation				
Marinas, Docks and Equipment	(1,053,805)	(113,214)	0	(1,167,019)
 <i>Total Capital Assets</i>				
<i>being Depreciated, Net</i>	1,274,006	187,202	0	1,461,208
Total Capital Assets, Net	<u>\$1,543,792</u>	<u>\$197,330</u>	<u>\$241,418</u>	<u>\$1,499,704</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, 2004, 2003 and 2002 were \$5,027, \$5,115 and \$5,268 respectively. The full amount has been contributed for 2003 and 2002, 76 percent has been contributed for 2004 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 2004 which were used to fund postemployment benefits were \$1,785.

City of Conneaut, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2004

M. Long-Term Obligations

The Conneaut Port Authority is liable for a note payable to the City of Conneaut. A \$270,000 note was issued on February 13, 2004 with an interest rate of 1.81 percent. This note is due on February 11, 2005.

The Conneaut Port Authority is liable for a dock capital lease in the amount of \$31,091.

N. Subsequent Event

The Authority issued a \$200,000, 2.90 percent marina note on February 10, 2005. This note will mature on February 9, 2006.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of The City of Conneaut (the City) as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 21, 2006. 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the City's management dated June 21, 2006, we reported other matters involving internal control over financial reporting we did not deem a reportable condition.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*. In a separate letter to the City's management dated June 21, 2006, we reported one matter related to noncompliance we deemed immaterial.

We intend this report solely for the information and use of the audit committee, management, and City Council and it is not intended for 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 21, 2006

**CITY OF CONNEAUT
ASHTABULA COUNTY**

**SCHEDULE OF FINDINGS
DECEMBER 31, 2004**

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

None

CITY OF CONNEAUT
ASHTABULA COUNTY

DECEMBER 31, 2004

SCHEDULE OF PRIOR AUDIT FINDINGS

<u>Finding Number</u>	<u>Finding Summary</u>	Fully <u>Corrected</u> ?
2003-001	Capital Asset Policy on Infrastructure	Partially Corrected: Reported in the Management letter



**Auditor of State
Betty Montgomery**

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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
OCTOBER 17, 2006**