



**Auditor of State
Betty Montgomery**

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

Conneaut Port Authority
Ashtabula County
PO Box 218
Conneaut, Ohio 44030

To the Board of Trustees:

We have audited the accompanying general-purpose financial statements of Conneaut Port Authority, Ashtabula County, a component unit of the City of Conneaut, Ohio, (the Port Authority) as of and for the year ended December 31, 2002, as listed in the table of contents. These general-purpose financial statements are the responsibility of the Port Authority's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Conneaut Port Authority, Ashtabula County, as of December 31, 2002, and the results of its operations and the cash flows of its proprietary fund type 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 December 16, 2003 on our consideration of the Government's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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Betty Montgomery
Auditor of State

December 16, 2003

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**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

BALANCE SHEET AS OF DECEMBER 31, 2002

ASSETS

Current Assets:

Checking/Savings	
Cash on Hand	\$200
Checking - Key Bank	49,236
Checking - Restroom Construction Project	3,239
Keybank - MMA	3,815
Total Checking/Savings	56,490

Other Current Assets:

Accounts Receivable (net)	1,030
Inventory - material and supplies	353
Prepaid expenses	10,555
Total Other Current Assets	11,938

Total Current Assets **68,428**

Other Assets:

Land, Buildings and Equipment	2,355,645
Accumulated Depreciation	(949,763)
Master Plan	50,318
Harbor Plat Maps	4,694
300 Foot break wall extension	12,850
Total Other Assets	1,473,744

TOTAL ASSETS **\$1,542,172**

LIABILITIES AND EQUITY

Liabilities:

Current Liabilities:

Accounts Payable	\$14,250
Current portion of long-term debt	15,000
Deferred revenue - dock rentals	38,640
Accrued Payroll	513
Accrued State w/h	58
Accrued City w/h	95
Accrued State unemployment	57
Accrued workers' compensation	448
Accrued PERS	1,267
Accrued interest	4,644
Total Current Liabilities	74,972

Long Term Liabilities

Notes payable - City of Conneaut	290,000
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Total Liabilities **364,972**

Equity

Retained Earnings - Unreserved	1,177,200
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TOTAL LIABILITIES AND EQUITY **\$1,542,172**

The Notes to the Financial Statements are an integral part of this statement.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN RETAINED EARNINGS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Revenue:

Dock Rentals:	
Lagoon	\$106,945
PCMYC	91,330
Jet Ski Slip	1,000
Total Dock Rentals	199,275
Transient dock	2,160
Lease income	32,194
Daily fees	16,814
ODNR restroom grant	2,042
Interest income	578
Miscellaneous income	1,948
Total Revenue	255,011

Expenses:

Salaries	14,800
Wages - dock rentals	24,081
Taxes- medicare	566
Taxes- state unemployment	390
Taxes - worker's comp	689
PERS	5,285
Repairs and Maintenance	25,231
Dredging	15,000
Operating supplies	1,438
Gas and oil	317
Trash removal	1,320
Utilities	12,375
Telephone	1,284
Insurance	13,069
Taxes - Real Estate	692
Office supplies	1,998
Meetings and Travel	853
Dues and subscriptions	115
Legal and professional	1,750
Advertising and promotional	1,691
Employee bonding	64
Security	292
Contract labor	1,275
Licenses and Permits	975
Loan interest	8,016
Postage and delivery	177
Bank Service Charges	360
Depreciation Expense	101,537
Submerged Land Lease	2,000
Construction Restrooms	3,803
Total Expenses	241,443

Excess of revenue over expenses 13,568

Beginning Retained Earnings 1/1/02	1,163,632
Ending Retained Earnings 12/31/02	\$1,177,200

The Notes to the Financial Statements are an integral part of this statement.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2002**

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from income, public support and fees and grants	\$263,442
Interest received	578
Cash paid to suppliers, employees and relative expenses	<u>(135,471)</u>

Net cash provided by operating activities	<u>128,549</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of fixed assets	(40,615)
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CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments	<u>(50,000)</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	37,934
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>18,556</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$56,490</u></u>
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RECONCILIATION TO NET CASH PROVIDED BY OPERATING ACTIVITIES:

Net income	<u>\$13,568</u>
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	101,537
(Increase) decrease in other assets (other than those affecting cash)	(4,106)
Increase (decrease) in other liabilities (other than those affecting cash)	<u>17,550</u>
Total adjustments	<u>114,981</u>

Net cash provided by operating activities	<u><u>\$128,549</u></u>
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The Notes to the Financial Statements are an integral part of this statement.

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**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies is presented to assist the reader in understanding and evaluating the financial statements of The Port Authority for the City of Conneaut.

The Port reports its operations as a single enterprise fund. Enterprise accounting is used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where it has been decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

General Policy - The Port Authority follows generally accepted accounting principles. The Port Authority carries its assets and liabilities on the historical cost basis and follows the accrual basis of accounting.

Inventories are stated at the lower of cost or market value. Cost is determined substantially by the first-in, first-out method.

Land, buildings, improvements and equipment are carried at cost and include expenditures for new facilities and major renewals and betterments. Maintenance, repairs, and minor renewals are charged to expense as incurred. When assets are sold, or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and any profit or loss arising from such disposition is included as income or expense in the year in which sold.

Depreciation is based on the estimated useful lives computed for financial reporting on the straight-line method. Improvements and buildings are depreciated over 10, 15, 20, 27½, 31½, and 39 years. Equipment is depreciated over 5 and 7 years.

The preparation of the GPFS in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the GPFS and the accompanying notes. Actual results may differ from those estimates.

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of adopting an operating budget. Documents prepared in accordance with the Revised Code are not required to be filed with the county auditor or county budget commission. Appropriations for each fund are limited to estimated resources as determined by the operating budget.

Nonexchange transactions, in which the Port Authority receives value without directly giving equal value in return, include grants and donations. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been met and the resources are available. Eligibility requirements include timing requirements, which specify the year when the resources are required to use or the year when use is permitted, matching requirements, in which the Port Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Port Authority on a reimbursement basis.

For purposes of the statement of cash flows, the Port Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Port Authority for the City of Conneaut operates two marinas and leases other lakefront facilities at the Port Authority for the City of Conneaut. The Port Authority's office is located at 1300 Broad Street, Conneaut, Ohio. The Port Authority for the City of Conneaut is a legally separate entity, 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 Port Authority for the City of Conneaut is fiscally dependent on the City and is therefore a component unit of the City. Financial statements can be obtained from Thomas M. Belnap, CPA, 243 Main Street, Conneaut, Ohio.

2. LONG-TERM DEBT

The Port Authority is liable for a note payable to City of Conneaut. The City has rewritten the previous loans payable and combined into one. The principal amount of \$ 305,000 is due on March 20, 2003 with interest at a rate of 2.61% per year, payable at maturity. These notes are rewritten each year with the City and Port Authority agreeing on a new principle amount and interest rate.

3. LEASES

The Port Authority for the City of Conneaut has entered into a fifty-year, non-monetary, lease commencing June 1, 1988 and ending May 31, 2038, with the City of Conneaut.

The Port Authority for the City of Conneaut has negotiated a forty-year lease commencing January 1, 1992 through December 31, 2031, with the Conneaut Boat Club. The annual lease amount due and is payable the fifteenth day of April each year, during the lease term.

Years 1-10, the lessee will pay base rent of \$ 16,000 for the first year and for the remaining years annual rent equivalent to one and a half percent of the base rate added to the rent for the previous year.

Years 11-20, the lessee will pay a new base rent not less than 15% nor not more than 30% of the base rent established in years 1-10, including the same 1.5% increase added in the same manner as the first ten year period. The lessee will pay base rent of \$ 18,720 for year eleven and for the remaining years an annual rent equivalent to one and one half percent of the base rate added to the rent for the previous year, as follows:

01/01/03	\$ 19,001
01/01/04	19,282
01/01/05	19,563
01/01/06	19,844
01/01/07	20,125
01/01/08	20,406
01/01/09	20,687
01/01/10	20,968
01/01/11	21,249

Years 21-30, same negotiations as years 11-20.

Years 31-40, same negotiations as years 21-30.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. LEASES (Continued)

The Port Authority for the City of Conneaut has entered into a forty-year lease commencing January 1, 1989 through December 31, 2028, with the Lake Erie Boat Club. The annual lease amount of \$ 3,000 is due and payable the first day of January each year, during years one through ten of the lease term. Prior to the end of the tenth year, the listed parties shall negotiate a new rental amount for the next ten years not to increase less than fifteen percent nor more than thirty percent of the annual rent due years one through ten. The previous procedure will occur for years twenty through thirty and years thirty through forty.

The Port Authority for the City of Conneaut has entered into a twenty-year lease commencing June 1, 1987 through May 31, 2007 with Ronald Rishavy and Nicholas Pape. The annual lease amount is due and payable the first day of June. The annual lease amounts are as follows:

Years 1-5 (June 1, 1987-May 31, 1992)	\$ 250 per year
Years 6-10 (June 1, 1992-May 31, 1997)	300 per year
Years 11-15 (June 1, 1997-May 31, 2002)	1,250 per year
Year 16 (June 1, 2002)	1,375
Year 17 (June 1, 2003)	1,512
Year 18 (June 1, 2004)	1,663
Year 19 (June 1, 2005)	1,830
Year 20 (June 1, 2006)	2,013

The Port Authority for the City of Conneaut has entered into a fifty-year lease commencing July 1, 1989 through June 30, 2039, with the State of Ohio for the purpose of leasing Port Conneaut Marina and Yacht Club.

Years 1-5, the annual lease amount of \$ 1 is due and payable the first day of June.

Years 6-15, the annual lease amount will be calculated at fair market rate, but will not be more than \$ 4,000 per year, payable the first day of June.

Years 16-50, the annual lease amount will be calculated by the Director, Department of Natural Resources, who will establish a rate comparable to rates charged to similar facilities, payable the first day of June.

4. PENSION BENEFITS

A. Public Employees Retirement System of Ohio is a cost-sharing multiple-employer defined benefit pension plan.

B. PERS provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries.

C. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code.

D. The Public Employees Retirement System issues a stand-alone financial report. Interested parties may obtain a copy by making a written request to 277/East Town Street, Columbus, Ohio 43215-4642 or by calling (614)466-2085 or 1-800-222-PERS (7377).

E. The Ohio Revised Code provides statutory authority for employees and employer contributions. The employee contribution rates are 8.5% for employees. The 2002 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 10.84% of covered payroll.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

4. PENSION BENEFITS (Continued)

- F. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The Port's required contributions to PERS for the years ended December 31, 2000, 2001, and 2002 were \$4,118, \$5,356, and \$5,285, respectively.

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

- A. Public Employees Retirement System of Ohio provides postretirement health care coverage to age and service retirants with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The 2001 employer contribution rate for state employers was 10.65% of covered payroll; 4.3% was the portion that was used to fund health care of the year. For local government employer units the rate was 10.84% of covered payroll, 4.3% was the portion that was used to fund health care for the year 2001.
- B. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.
- C. OPEB is financed through employer contributions and investments earnings there on. The contributions allocated to retiree health and Medicare, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.
- D. As of December 31, 2000 (the latest information available) the unaudited estimated net assets available for future OPEB payments were \$ 10,805.5 million. The actuarially accrued liability and the unfunded actuarial accrued liability were \$ 12,473.6 million and \$ 1,668.1 million, respectively. The Port Authority for the City of Conneaut's contributions for 2001 were \$5,356. For 2000, PERS elected to return to an actuarially pre-funded type of disclosure because it is a better presentation of PERS's actual funding methodology. Since 1997, disclosures had been based on a pay-as-you-go funding basis.
- E. Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a rate of return on investments if 7.75%, an annual increase in active employee total payroll of 4.75% compounded annually (assuming participants remain somewhat constant) and an additional increase in total payroll of between .54 percent and 5.1 percent based on annual pay increases. Health care premiums were assumed to increase 4.75 percent annually.
- F. In December 2001, the Board adopted the Health Care "Choices" Plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

5. POSTEMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS (Continued)

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

6. CASH AND INVESTMENTS

State statutes classify monies held by the Port Authority 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 District Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

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

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

Protection of Port Authority's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Monies held by the Port Authority which are not considered active are classified as interim monies. Interim monies may be deposited or invested in the following securities:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations, or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All Federal agency securities shall be direct issuance's of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio or its political subdivisions provided that such political subdivisions are located wholly or partly within the Port Authority;

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

6. CASH AND INVESTMENTS (continued)

5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. 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;
7. The State Treasurer's investment pool (STAR Ohio).

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of 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 Port Authority and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only with delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand - At year end, the Port Authority had \$ 200 in undeposited cash on hand which is included on the statement of net assets.

Deposits - At year end the carrying amount of the Port Authority's deposits was \$ 52,475 and the bank balance was \$ 52,475.

The bank balance, \$ 52,475 was covered by federal depository insurance.

Investments - The Port Authority's investments are categorized below to give an indication of the level of risk assumed by the Port Authority at year end. Category 1 includes investments that are insured or registered or are held by the Port Authority or its agent in the Port Authority's name. Category 2 includes uninsured and unregistered investments which are held by the counter party's trust department or agent in the Port Authority's name. Category 3 includes uninsured and unregistered investments which are held by the counter party or by its trust department or agent but not in the Port Authority's name.

	<u>1</u>	<u>2</u>	<u>Category 3</u>	<u>Carrying Value</u>	<u>Market Value</u>
Key Investments, Inc.	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 3,815</u>	<u>\$ 3,815</u>	<u>\$ 3,815</u>

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

6. CASH AND INVESTMENTS (continued)

The classification of cash and cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. A reconciliation between the classifications of cash and cash equivalents and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/Deposits	Investments
GASB Statements No. 9	\$ 56,490	\$ -0-
Cash on Hand	200	0
Investments - Key Investments, Inc.	<u>(3,815)</u>	<u>3,815</u>
GASB Statement No. 3	<u>\$ 52,675</u>	<u>\$ 3,815</u>

7. CAPITAL ASSETS

	Balance January 1, 2002	Additions	Deductions	Balance December 31, 2002
Land	\$ 38,496	\$ -0-	\$ -0-	\$ 38,496
Marinas, Docks and equipment	<u>2,289,384</u>	<u>27,765</u>	<u>-0-</u>	<u>2,317,149</u>
Total	<u>\$ 2,327,880</u>	<u>\$ 27,765</u>	<u>\$ -0-</u>	<u>\$ 2,355,645</u>

A summary of fixed assets at December 31, 2002 follows:

Land	\$ 38,496
Lagoon Marina	240,000
Public Dock	537,079
Port Conneaut Marina and Yacht Club	530,867
Site improvements	90,283
Building and improvements	227,950
Street improvements	57,974
Leasehold improvements - Broad Street Extension	182,015
Public Dock engineering	64,331
Dock improvements	116,634
Observation deck	6,279
Machinery and equipment	77,371
Launching ramp	166,366
Fuel dock	<u>20,000</u>
Total	2,355,645
Less accumulated depreciation	<u>(949,763)</u>
Net fixed assets	<u>\$ 1,405,882</u>

**CONNEAUT PORT AUTHORITY
ASHTABULA COUNTY**

**NOTES TO THE GENERAL-PURPOSE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

8. RISK MANAGEMENT

The Port Authority maintains comprehensive insurance coverage with Love Insurance Company for real property, building contents, vehicles and liability coverage for bodily injury and property damage.

9. CONTINGENCIES

The Port Authority received financial assistance from state a agency in the form of a grant. The disbursement of funds under this program generally requires compliance with the terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the Port Authority. However, in the opinion of management, any such disallowed claim will not have a material effect on the financial statements included herein or the overall financial opinion of the Port Authority at December 31, 2002.

The Port Authority was not involved in any pending litigation as plaintiff, or defendant, as of December 31, 2002.



Auditor of State Betty Montgomery

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

Conneaut Port Authority
Ashtabula County
PO Box 218
Conneaut, Ohio 44030

To the Board of Trustees:

We have audited the accompanying financial statements of the Conneaut Port Authority, Ashtabula County a component unit of the City of Conneaut, Ohio (the Port Authority) as of and for the year ended December 31, 2002, and have issued our report thereon dated December 16, 2003. We conducted our audit in accordance with auditing standards generally accepted by the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Port Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted other immaterial instances of noncompliance that we have reported to management of the Port Authority in a separate letter dated December 16, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Port Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the Port Authority in a separate letter dated December 16, 2003.

Conneaut Port Authority
Ashtabula County
Report of Independent Accountants on Compliance and on Internal Control
Required by *Government Auditing Standards*
Page 2

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

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

Betty Montgomery
Auditor of State

December 16, 2003



**Auditor of State
Betty Montgomery**

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Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

CONNEAUT PORT AUTHORITY

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
JANUARY 13, 2004**