



**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

REGULAR AUDIT

FOR THE YEARS ENDED DECEMBER 31, 2004 & 2003



**Auditor of State
Betty Montgomery**

VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY

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**Auditor of State
Betty Montgomery**

Village of Fairport Harbor
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Village Council:

As you are aware, the Auditor of State's Office (AOS) must modify the *Independent Accountants' Report* we provide on your financial statements due to a February 2, 2005 interpretation from the American Institute of Certified Public Accountants (AICPA). While AOS does not legally require your government to prepare financial statements pursuant to Generally Accepted Accounting Principles (GAAP), the AICPA interpretation requires auditors to formally acknowledge that you did not prepare your financial statements in accordance with GAAP. Our Report includes an opinion relating to GAAP presentation and measurement requirements, but does not imply the amounts the statements present are misstated under the non-GAAP basis you follow. The AOS report also includes an opinion on the financial statements you prepared using the cash basis and financial statement format the AOS permits.

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

Betty Montgomery
Auditor of State

September 1, 2005

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Village of Fairport Harbor
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Village Council:

We have audited the accompanying financial statements of the Village of Fairport Harbor, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2004 and December 31, 2003. These financial statements are the responsibility of the Village's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in 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 opinion.

As described more fully in Note 1, the Village has prepared these financial statements using accounting practices the Auditor of State prescribes or permits. These practices differ from accounting principles generally accepted in the United States of America (GAAP). Although we cannot reasonably determine the effects on the financial statements of the variances between these regulatory accounting practices and GAAP, we presume they are material.

Revisions to GAAP would require the Village to reformat its financial statement presentation and make other changes effective for the year ended December 31, 2004. Instead of the combined funds the accompanying financial statements present for 2004 (and 2003), the revisions require presenting entity wide statements and also to present its larger (i.e. major) funds separately for 2004. While the Village does not follow GAAP, generally accepted auditing standards requires us to include the following paragraph if the statements do not substantially conform to the new GAAP presentation requirements. The Auditor of State permits, but does not require governments to reformat their statements. The Village has elected not to reformat its statements. Since this Village does not use GAAP to measure financial statement amounts, the following paragraph does not imply the amounts reported are materially misstated under the accounting basis the Auditor of State permits. Our opinion on the fair presentation of the amounts reported pursuant to its non-GAAP basis is in the second following paragraph.

In our opinion, because of the effects of the matter discussed in the preceding two paragraphs, the financial statements referred to above for the year ended December 31, 2004 do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village as of December 31, 2004, or its changes in financial position or cash flows of its proprietary funds for the year then ended.

Also, in our opinion, the financial statements referred to above present fairly, in all material respects, the combined fund cash balances and reserves for encumbrances of the Village of Fairport Harbor, Lake County, Ohio, as of December 31, 2004 and December 31, 2003, and its combined cash receipts and disbursements for the years then ended on the accounting basis Note 1 describes.

The aforementioned revision to generally accepted accounting principles also requires the Village to include Management's Discussion and Analysis for the year ended December 31, 2004. The Village has not presented Management's Discussion and Analysis, which accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

As described in Note 2, the Village restated its beginning fund balance in the Expendable Trust Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2005, on our consideration of the Village'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.



Betty Montgomery
Auditor of State

September 1, 2005

VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | Governmental Fund Types | | | | Fiduciary Fund Type | Totals (Memorandum Only) |
|--|-------------------------|--------------------|------------------|---------------------|------------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$904,966 | \$101,267 | \$0 | \$0 | \$0 | \$1,006,233 |
| Special Assessments | 0 | 106,761 | 70,288 | 0 | 0 | 177,049 |
| Intergovernmental Receipts | 421,370 | 122,745 | 0 | 550,774 | 0 | 1,094,889 |
| Charges for Services | 57,115 | 0 | 0 | 0 | 0 | 57,115 |
| Fees, Licenses, and Permits | 5,128 | 0 | 0 | 0 | 0 | 5,128 |
| Earnings on Investments | 10,892 | 0 | 0 | 0 | 0 | 10,892 |
| Fines & Forfeitures | 18,284 | 4,191 | 0 | 0 | 0 | 22,475 |
| Contributions | 0 | 0 | 0 | 0 | 200 | 200 |
| Gifts | 0 | 0 | 0 | 880 | 0 | 880 |
| Miscellaneous | 126,106 | 7,162 | 0 | 0 | 0 | 133,268 |
| Total Cash Receipts | <u>1,543,861</u> | <u>342,126</u> | <u>70,288</u> | <u>551,654</u> | <u>200</u> | <u>2,508,129</u> |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 882,773 | 18,955 | 0 | 0 | 0 | 901,728 |
| Public Health Services | 16,273 | 0 | 0 | 0 | 0 | 16,273 |
| Leisure Time Activities | 1,493 | 0 | 0 | 0 | 0 | 1,493 |
| Community Development | 19,927 | 0 | 0 | 0 | 0 | 19,927 |
| Transportation | 216,446 | 107,927 | 0 | 0 | 0 | 324,373 |
| General Government | 422,988 | 0 | 0 | 0 | 0 | 422,988 |
| Materials and Supplies | 486 | 6,450 | 0 | 0 | 0 | 6,936 |
| Utilities | 0 | 6,576 | 0 | 0 | 0 | 6,576 |
| Personal Services | 0 | 31,873 | 0 | 0 | 0 | 31,873 |
| Contractual Services | 788 | 1,996 | 2,060 | 1,257,161 | 0 | 1,262,005 |
| Miscellaneous | 0 | 1,965 | 0 | 0 | 0 | 1,965 |
| Capital Outlay | 28,210 | 59,475 | 0 | 813 | 0 | 88,498 |
| Debt Service: | | | | | | |
| Principal Payments | 0 | 0 | 147,347 | 0 | 0 | 147,347 |
| Interest Payments | 0 | 0 | 69,709 | 0 | 0 | 69,709 |
| Total Cash Disbursements | <u>1,589,384</u> | <u>235,217</u> | <u>219,116</u> | <u>1,257,974</u> | <u>0</u> | <u>3,301,691</u> |
| Total Receipts Over/(Under) Disbursements | <u>(45,523)</u> | <u>106,909</u> | <u>(148,828)</u> | <u>(706,320)</u> | <u>200</u> | <u>(793,562)</u> |
| Other Financing Receipts and (Disbursements): | | | | | | |
| USDA Loan Proceeds | 0 | 0 | 0 | 270,638 | 0 | 270,638 |
| OPWC Loan Proceeds | 0 | 0 | 0 | 108,855 | 0 | 108,855 |
| Transfers-In | 0 | 0 | 135,191 | 110,346 | 0 | 245,537 |
| Advances-In | 70,000 | 0 | 0 | 0 | 0 | 70,000 |
| Transfers-Out | (30,000) | (32,462) | 0 | 0 | 0 | (62,462) |
| Advances-Out | (70,000) | 0 | 0 | 0 | 0 | (70,000) |
| Total Other Financing Receipts/(Disbursements) | <u>(30,000)</u> | <u>(32,462)</u> | <u>135,191</u> | <u>489,839</u> | <u>0</u> | <u>562,568</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (75,523) | 74,447 | (13,637) | (216,481) | 200 | (230,994) |
| Fund Cash Balances, January 1, 2004 | 304,147 | 338,502 | 21,772 | 220,850 | 50 | 885,321 |
| Fund Cash Balances, December 31, 2004 | <u>\$228,624</u> | <u>\$412,949</u> | <u>\$8,135</u> | <u>\$4,369</u> | <u>\$250</u> | <u>\$654,327</u> |
| Reserves for Encumbrances, December 31, 2004 | <u>\$28,839</u> | <u>\$3,688</u> | <u>\$0</u> | <u>\$6,235</u> | <u>\$0</u> | <u>\$38,762</u> |

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

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2004**

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$543,852 | \$0 | \$543,852 |
| Total Operating Cash Receipts | <u>543,852</u> | <u>0</u> | <u>543,852</u> |
| Operating Cash Disbursements: | | | |
| Personal Services | 245,048 | 0 | 245,048 |
| Contractual Services | 108,313 | 0 | 108,313 |
| Supplies and Materials | 35,370 | 0 | 35,370 |
| Capital Outlay | 21,027 | 0 | 21,027 |
| Total Operating Cash Disbursements | <u>409,758</u> | <u>0</u> | <u>409,758</u> |
| Operating Income/(Loss) | <u>134,094</u> | <u>0</u> | <u>134,094</u> |
| Non-Operating Cash Receipts: | | | |
| Interest Earnings | 417 | 0 | 417 |
| Other Non-Operating Receipts | 0 | 26,925 | 26,925 |
| Total Non-Operating Cash Receipts | <u>417</u> | <u>26,925</u> | <u>27,342</u> |
| Non-Operating Cash Disbursements: | | | |
| Other Non-Operating Cash Disbursements | 0 | 26,860 | 26,860 |
| Total Non-Operating Cash Disbursements | <u>0</u> | <u>26,860</u> | <u>26,860</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | 134,511 | 65 | 134,576 |
| Transfers-In | 30,000 | 0 | 30,000 |
| Advances-In | 70,000 | 0 | 70,000 |
| Transfers-Out | (213,075) | 0 | (213,075) |
| Advances-Out | (70,000) | 0 | (70,000) |
| Net Receipts Over/(Under) Disbursements | <u>(48,564)</u> | <u>65</u> | <u>(48,499)</u> |
| Fund Cash Balances, January 1, 2004 | <u>61,648</u> | <u>1,473</u> | <u>63,121</u> |
| Fund Cash Balances, December 31, 2004 | <u>\$13,084</u> | <u>\$1,538</u> | <u>\$14,622</u> |
| Reserve for Encumbrances, December 31, 2004 | <u>\$1,845</u> | <u>\$0</u> | <u>\$1,845</u> |

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

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES - ALL GOVERNMENTAL AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | Governmental Fund Types | | | | Fiduciary Fund Type | Totals (Memorandum Only) |
|--|-------------------------|-------------------------|------------------------|-------------------------|------------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | |
| Cash Receipts: | | | | | | |
| Property Tax and Other Local Taxes | \$944,749 | \$97,413 | \$0 | \$0 | \$0 | \$1,042,162 |
| Special Assessments | 0 | 86,720 | 73,569 | 0 | 0 | 160,289 |
| Intergovernmental Receipts | 441,537 | 115,322 | 0 | 310,329 | 0 | 867,188 |
| Charges for Services | 39,445 | 10,350 | 0 | 0 | 0 | 49,795 |
| Fees, Licenses, and Permits | 10,758 | 0 | 0 | 0 | 0 | 10,758 |
| Earnings on Investments | 9,539 | 0 | 0 | 0 | 0 | 9,539 |
| Fines & Forfeitures | 26,530 | 6,314 | 0 | 0 | 0 | 32,844 |
| Contributions | 50 | 0 | 0 | 0 | 0 | 50 |
| Gifts | 0 | 0 | 0 | 4,931 | 0 | 4,931 |
| Miscellaneous | 52,898 | 7,545 | 0 | 0 | 0 | 60,443 |
| Total Cash Receipts | <u>1,525,506</u> | <u>323,664</u> | <u>73,569</u> | <u>315,260</u> | <u>0</u> | <u>2,237,999</u> |
| Cash Disbursements: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 862,701 | 16,136 | 0 | 0 | 0 | 878,837 |
| Public Health Services | 15,702 | 0 | 0 | 0 | 0 | 15,702 |
| Leisure Time Activities | 10,752 | 0 | 0 | 0 | 0 | 10,752 |
| Community Development | 13,884 | 0 | 0 | 0 | 0 | 13,884 |
| Transportation | 311,370 | 89,093 | 0 | 0 | 0 | 400,463 |
| General Government | 414,445 | 0 | 0 | 0 | 144 | 414,589 |
| Materials and Supplies | 8,641 | 7,152 | 0 | 0 | 0 | 15,793 |
| Utilities | 0 | 5,386 | 0 | 0 | 0 | 5,386 |
| Personal Services | 0 | 27,000 | 0 | 0 | 0 | 27,000 |
| Contractual Services | 3,855 | 2,770 | 3,536 | 576,999 | 0 | 587,160 |
| Miscellaneous | 0 | 2,663 | 0 | 0 | 0 | 2,663 |
| Capital Outlay | 45,499 | 92,910 | 0 | 796 | 0 | 139,205 |
| Debt Service: | | | | | | |
| Principal Payments | 0 | 0 | 130,520 | 0 | 0 | 130,520 |
| Interest Payments | 0 | 0 | 67,500 | 0 | 0 | 67,500 |
| Total Cash Disbursements | <u>1,686,849</u> | <u>243,110</u> | <u>201,556</u> | <u>577,795</u> | <u>144</u> | <u>2,709,454</u> |
| Total Receipts Over/(Under) Disbursements | <u>(161,343)</u> | <u>80,554</u> | <u>(127,987)</u> | <u>(262,535)</u> | <u>(144)</u> | <u>(471,455)</u> |
| Other Financing Receipts and (Disbursements): | | | | | | |
| USDA Loan Proceeds | 0 | 0 | 0 | 236,362 | 0 | 236,362 |
| OPWC Loan Proceeds | 0 | 0 | 0 | 175,000 | 0 | 175,000 |
| Transfers-In | 10,350 | 0 | 107,802 | 71,000 | 0 | 189,152 |
| Transfers-Out | 0 | (10,350) | 0 | 0 | 0 | (10,350) |
| Total Other Financing Receipts/(Disbursements) | <u>10,350</u> | <u>(10,350)</u> | <u>107,802</u> | <u>482,362</u> | <u>0</u> | <u>590,164</u> |
| Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements | (150,993) | 70,204 | (20,185) | 219,827 | (144) | 118,709 |
| Fund Cash Balances, January 1, 2003 (Restated) | 455,140 | 268,298 | 41,957 | 1,023 | 194 | 766,612 |
| Fund Cash Balances, December 31, 2003 | <u>\$304,147</u> | <u>\$338,502</u> | <u>\$21,772</u> | <u>\$220,850</u> | <u>\$50</u> | <u>\$885,321</u> |
| Reserves for Encumbrances, December 31, 2003 | <u>\$37,157</u> | <u>\$7,797</u> | <u>\$0</u> | <u>\$6,749</u> | <u>\$0</u> | <u>\$51,703</u> |

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

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS,
AND CHANGES IN FUND CASH BALANCES
ALL PROPRIETARY AND SIMILAR FIDUCIARY FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2003**

| | <u>Proprietary Fund Type</u> | <u>Fiduciary Fund Type</u> | <u>Totals (Memorandum Only)</u> |
|--|----------------------------------|--------------------------------|---|
| | <u>Enterprise</u> | <u>Agency</u> | |
| Operating Cash Receipts: | | | |
| Charges for Services | \$572,534 | \$0 | \$572,534 |
| Fees, Licenses, Permits | 1,723 | 0 | 1,723 |
| Total Operating Cash Receipts | <u>574,257</u> | <u>0</u> | <u>574,257</u> |
| Operating Cash Disbursements: | | | |
| Contractual Services | 2,049 | 0 | 2,049 |
| Basic Utility Services | 677,441 | 0 | 677,441 |
| Total Operating Cash Disbursements | <u>679,490</u> | <u>0</u> | <u>679,490</u> |
| Operating Income/(Loss) | <u>(105,233)</u> | <u>0</u> | <u>(105,233)</u> |
| Non-Operating Cash Receipts: | | | |
| Interest Earnings | 2,963 | 0 | 2,963 |
| Other Non-Operating Receipts | 0 | 34,727 | 34,727 |
| Total Non-Operating Cash Receipts | <u>2,963</u> | <u>34,727</u> | <u>37,690</u> |
| Non-Operating Cash Disbursements: | | | |
| Other Non-Operating Cash Disbursements | 0 | 35,929 | 35,929 |
| Total Non-Operating Cash Disbursements | <u>0</u> | <u>35,929</u> | <u>35,929</u> |
| Excess of Receipts Over/(Under) Disbursements Before Interfund Transfers and Advances | (102,270) | (1,202) | (103,472) |
| Transfers-Out | <u>(178,802)</u> | <u>0</u> | <u>(178,802)</u> |
| Net Receipts Over/(Under) Disbursements | (281,072) | (1,202) | (282,274) |
| Fund Cash Balances, January 1, 2003 | <u>342,720</u> | <u>2,675</u> | <u>345,395</u> |
| Fund Cash Balances, December 31, 2003 | <u>\$61,648</u> | <u>\$1,473</u> | <u>\$63,121</u> |
| Reserve for Encumbrances, December 31, 2003 | <u>\$9,152</u> | <u>\$0</u> | <u>\$9,152</u> |

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

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The constitution and laws of the State of Ohio establish the rights and privileges of the Village of Fairport Harbor, Lake County, Ohio, (the Village) as a body corporate and politic. A publicly-elected six-member Council governs the Village. The Village provides water utilities, general governmental services, rubbish collections, building, zoning, and police and fire protection.

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

Northeast Ohio Public Energy Council

The Village is a member of the Northeast Ohio Public Energy Council ("NOPEC"), a jointly governed organization. NOPEC is a regional council of governments formed under Chapter 167 of the Ohio Revised Code. NOPEC was formed to serve as a vehicle for communities wishing to proceed jointly with an aggregation program for the purchase of electricity. NOPEC is currently comprised of over 100 communities who have been authorized by ballot to purchase electricity on behalf of their citizens. The intent of NOPEC is to provide electricity at the lowest possible rates while at the same time insuring stability in prices by entering into long-term contracts with suppliers to provide electricity to the citizens of its member communities.

NOPEC is governed by a General Assembly made up of one representative from each member community. The representatives from each County then elect one person to serve on the eight-member NOPEC Board of Directors. The Board of Directors oversees and manages the operation of the aggregation program. The degree of control exercised by any participating government is limited to its representation in the General Assembly and on the Board of Directors. The Village did not contribute to NOPEC in 2003 or 2004. Financial information can be obtained by contacting NOPEC, 1615 Clark Avenue, Cleveland, Ohio, 44109.

B. Basis of Accounting

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

These statements adequately disclose material matters the Auditor of State prescribes.

C. Cash and Investments

The Village's accounting basis includes investments as assets. This basis does not report disbursements for investment purchases or receipts for investment sales. The Village reports gains or losses at the time of sale as receipts or disbursements, respectively.

The Village invests in STAR Ohio (the State Treasurer's investment pool) and a repurchase agreement. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and the Repurchase Agreement is valued at cost.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

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

1. General Fund

The General Fund reports all financial resources except those required to be accounted for in another fund.

2. Special Revenue Funds

These funds account for proceeds from specific sources (other than from trusts or for capital projects) that are restricted to expenditure for specific purposes. The Village had the following significant Special Revenue Funds:

Street Construction, Maintenance, and Repair Fund - This fund receives gasoline tax and motor vehicle tax money for constructing, maintaining, and repairing Village streets.

Street Lighting Fund -This fund receives special assessment monies which are used to provide street lighting.

Senior Community Center Fund -This fund receives monies which are used to run the daily operations of the Community Center.

3. Debt Service Fund

This fund accounts for resources the Village accumulates to pay bonds and loan indebtedness.

4. Capital Project Funds

These funds account for receipts restricted to acquiring or constructing major capital projects (except those financed through the trust fund). The Village had the following significant capital project funds:

New Street Waterline/Pavement Funds - This fund is used to account for improvements to New Street.

5. Enterprise Fund

This fund accounts for operations that are similar to private business enterprises, where management intends to recover the significant costs of providing certain goods or services through user charges. The Village had the following significant Enterprise Fund:

Water Fund - This fund receives charges for services from residents to cover water service costs.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting (Continued)

6. Fiduciary Funds (Trust and Agency Funds)

Trust funds account for resources restricted by legally binding trust agreements. If the agreement requires the Village to maintain the corpus of the trust, the Village classifies the fund as a nonexpendable trust fund. Other trust funds are classified as expendable. Funds for which the Village is acting in an agency capacity are classified as agency funds. The Village had the following significant fiduciary funds:

Expendable Trust Fund

Shade Tree Commission - This fund receives gifts and donations from residents for the purpose of planting, maintaining, or removing trees.

Agency Fund

Mayor's Court Fund - This fund receives fees from traffic violations. A portion of these fees are paid to the Village's General Fund and the remainder is remitted to the State.

E. Budgetary Process

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

1. Appropriations

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

2. Estimated Resources

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

3. Encumbrances

The Ohio Revised Code requires the Village to reserve (encumber) appropriations when commitments are made. Encumbrances outstanding at year end are carried over, and need not be reappropriated.

A summary of 2004 and 2003 budgetary activity appears in Note 4.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Property, Plant, and Equipment

The Village records disbursements for acquisitions of property, plant, and equipment when paid. The accompanying financial statements do not report these items as assets.

G. Accumulated Leave

In certain circumstances, such as upon leaving employment, employees are entitled to cash payments for unused leave. The financial statements do not include a liability for unpaid leave.

2. RESTATEMENT OF FUND BALANCE

The Special Revenue and the Expendable Trust Fund, were restated due to a reclassification of the Police Disability & Fund Pension Fund to the Special Revenue Fund. This fund was classified as an Expendable Trust Fund in the prior year. The restatements are as follows:

| | Special Revenue Fund | Expendable Trust Fund |
|---------------------------------------|-------------------------|--------------------------|
| Fund Balances January 1, 2003 | \$267,699 | \$793 |
| Fund Balance Reclassification | 599 | (599) |
| Restated Fund Balance January 1, 2003 | \$268,298 | \$194 |

3. EQUITY IN POOLED CASH AND INVESTMENTS

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

| | 2004 | 2003 |
|--------------------------------|------------|------------|
| Demand deposits | (\$65,068) | (\$90,418) |
| Total deposits | (65,068) | (90,418) |
| STAR Ohio | 434,017 | 428,860 |
| Repurchase Agreements | 300,000 | 610,000 |
| Total investments | 734,017 | 1,038,860 |
| Total deposits and investments | \$668,949 | \$948,442 |

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

Investments: Investments in STAR Ohio are not evidenced by securities that exist in physical or book-entry form.

The Village's financial institution transfers securities to the Village's agent to collateralize repurchase agreements. The securities are not in the Village's name.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. BUDGETARY ACTIVITY

Budgetary activity for the years ending December 31, 2004 and December 31, 2003 follows:

| 2004 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,572,369 | \$1,543,861 | (\$28,508) |
| Special Revenue | 352,893 | 342,126 | (10,767) |
| Debt Service | 211,850 | 205,479 | (6,371) |
| Capital Projects | 1,733,600 | 1,041,493 | (692,107) |
| Enterprise | 595,000 | 574,269 | (20,731) |
| Expendable Trust | 300 | 200 | (100) |
| Total | \$4,466,012 | \$3,707,428 | (\$758,584) |

| 2004 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,853,028 | \$1,648,223 | \$204,805 |
| Special Revenue | 634,840 | 271,367 | 363,473 |
| Debt Service | 233,418 | 219,116 | 14,302 |
| Capital Projects | 1,953,949 | 1,264,209 | 689,740 |
| Enterprise | 656,152 | 624,678 | 31,474 |
| Expendable Trust | 350 | 0 | 350 |
| Total | \$5,331,737 | \$4,027,593 | \$1,304,144 |

| 2003 Budgeted vs. Actual Receipts | | | |
|-----------------------------------|----------------------|--------------------|-------------|
| Fund Type | Budgeted Receipts | Actual Receipts | Variance |
| General | \$1,503,030 | \$1,535,856 | \$32,826 |
| Special Revenue | 311,772 | 323,664 | 11,892 |
| Debt Service | 189,475 | 181,371 | (8,104) |
| Capital Projects | 1,572,800 | 797,622 | (775,178) |
| Enterprise | 595,000 | 577,220 | (17,780) |
| Expendable Trust | 300 | 0 | (300) |
| Total | \$4,172,377 | \$3,415,733 | (\$756,644) |

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

4. BUDGETARY ACTIVITY (Continued)

| 2003 Budgeted vs. Actual Budgetary Basis Expenditures | | | |
|---|----------------------------|---------------------------|-------------|
| Fund Type | Appropriation Authority | Budgetary Expenditures | Variance |
| General | \$1,897,955 | \$1,724,006 | \$173,949 |
| Special Revenue | 579,040 | 261,257 | 317,783 |
| Debt Service | 219,395 | 201,556 | 17,839 |
| Capital Projects | 1,573,822 | 584,544 | 989,278 |
| Enterprise | 926,102 | 867,444 | 58,658 |
| Expendable Trust | 494 | 144 | 350 |
| Total | \$5,196,808 | \$3,638,951 | \$1,557,857 |

5. PROPERTY TAX

Real property taxes become a lien on January 1 preceding the October 1 date for which the Village Council adopts tax rates. The State Board of Tax Equalization adjusts these rates for inflation. Property taxes are also reduced for applicable homestead and rollback deductions. The State pays the Village amounts equaling these deductions. The Village includes these with Intergovernmental Receipts. Payments are due to the County by December 31. If the property owner elects to pay semiannually, the first half payment is due December 31. The second half payment is due the following June 20.

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

Property owners assess tangible personal property tax. They must file a list of tangible property to the County by each April 30. The County is responsible for assessing property, and for billing, collecting, and distributing all property taxes on the Village's behalf.

6. LOCAL INCOME TAX

The Village levies a municipal income tax of 2 percent on substantially all earned income arising from employment, residency, or business activities within the Village as well as certain income of residents earned outside of the Village.

Employers within the Village withhold income tax on employee compensation and remit the tax to the Village either monthly or quarterly, as required. Corporations and other individual taxpayers pay estimated taxes quarterly and file a declaration annually.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. DEBT

Debt outstanding at December 31, 2004 was as follows:

| | <u>Principal</u> | <u>Interest Rate</u> |
|--|---------------------|----------------------|
| High & Water Street Special Assessment Bonds | \$ 210,000 | 6.60% |
| OWDA Loan - High & Water Street | 188,657 | 7.65% |
| OWDA Loan - Backwash Project | 541,710 | 3.50% |
| OPWC Loan - Water Storage Tank Repairs | 111,232 | 3.00% |
| OPWC Loan - Water Valve Replacements | 92,837 | 3.00% |
| OPWC Loan - New Street Waterline | 131,250 | 0.00% |
| OPWC Loan - Plum Street Improvements | 161,875 | 0.00% |
| USDA Loan - Senior Community Center | 498,600 | 4.25% |
| Total | <u>\$ 1,936,161</u> | |

The Special Assessment Bonds relate to the reconstruction of High and Water Streets. The bonds were issued in 1991 and will be repaid in semi-annual installments, including interest, over 20 years.

The Ohio Water Development Authority (OWDA) loan for High and Water Street relates to water and sewer improvement projects. OWDA issued a loan for \$569,648 in 1989 and it is being repaid in annual installments of \$56,517, including interest, over 20 years.

The OWDA loan for the Backwash Project pertains to improvements to the water plant. OWDA issued the loan in 1999 for \$704,499. The loan will be repaid in semi-annual installments of \$24,638, including interest, over 20 years.

The Ohio Public Works Commission (OPWC) loan for Water Storage and Tank Repairs relates to improvements to the water storage. OPWC issued a loan in 2002 for \$122,900. The loan will be repaid in semi-annual payments of \$4,108 including interest over 20 years.

The OPWC loan for Water Distribution System and Valve Replacement relates to water improvement projects. OPWC issued the loan in 2001 for \$107,319. The loan will be repaid in semi-annual payments of \$3,587, including interest over 20 years.

The OPWC loan for New Street Waterline Pavement and Improvements relates to improvements to the waterline and the road. OPWC issued the loan in 2002 for \$150,000. This loan will be repaid in semi-annual payments of \$3,750.

The OPWC loan for Plum Street Improvements - Phase I relates to improvements to Plum Street. OPWC issued the loan in 2003 for \$175,000. This loan will be repaid in semi-annual payments of \$4,375.

The USDA Loan relates to Senior/Community Center General Obligation Bonds for the improvement of the Fairport Harbor Senior/Community Center. USDA issued general obligation bonds in 2003 for \$507,000 and will be repaid in annual installments, including interest, over 30 years.

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

7. DEBT (Continued)

In 2004 the Village obtained a no-interest loan from OPWC for Plum Street Improvements – Phase II. This project relates to improvements to Plum Street. The Village received \$108,855 in loan proceeds. No payments will be made against the loan until 2005. As of December 31, 2004, no payments have been made on the loan because it was not finalized and an amortization schedule has not been provided. The remaining \$14,100 will be received in 2005.

Amortization of the above debt, including interest, follows:

| Year ending December 31: | High & Water Street - Special Assessment Bonds | High & Water Street OWDA Loan | Backwash Project OWDA Loan | Water Storage Tank Repair OPWC Loan |
|-----------------------------|---|-------------------------------------|----------------------------------|--|
| 2005 | \$43,860 | \$56,517 | \$49,276 | \$8,216 |
| 2006 | 41,860 | 56,517 | 49,276 | 8,216 |
| 2007 | 39,900 | 56,517 | 49,276 | 8,216 |
| 2008 | 37,920 | 56,517 | 49,276 | 8,216 |
| 2009 | 35,940 | | 49,276 | 8,216 |
| 2010-2014 | 65,940 | | 246,378 | 41,082 |
| 2015-2019 | | | 197,102 | 41,082 |
| 2020-2024 | | | | 20,541 |
| 2025-2029 | | | | |
| 2030-2033 | | | | |
| Total | <u>\$265,420</u> | <u>\$226,068</u> | <u>\$689,860</u> | <u>\$143,785</u> |

| Year ending December 31: | Water Distribution Valve Replacement OPWC Loan | New Street Waterline OPWC Loan | Plum Street Improvement OPWC Loan | Senior Community Center USDA Loan | TOTALS |
|-----------------------------|---|---|---|--|--------------------|
| 2005 | \$7,175 | \$7,500 | \$8,750 | \$30,291 | \$211,585 |
| 2006 | 7,175 | 7,500 | 8,750 | 30,204 | 209,498 |
| 2007 | 7,175 | 7,500 | 8,750 | 30,204 | 207,538 |
| 2008 | 7,175 | 7,500 | 8,750 | 30,243 | 205,597 |
| 2009 | 7,175 | 7,500 | 8,750 | 30,254 | 147,111 |
| 2010-2014 | 35,874 | 37,500 | 43,750 | 151,217 | 621,741 |
| 2015-2019 | 35,874 | 37,500 | 43,750 | 151,186 | 506,494 |
| 2020-2024 | 10,762 | 18,750 | 30,625 | 151,240 | 231,918 |
| 2025-2029 | | | | 151,235 | 151,235 |
| 2030-2033 | | | | 120,939 | 120,939 |
| Total | <u>\$118,385</u> | <u>\$131,250</u> | <u>\$161,875</u> | <u>\$877,013</u> | <u>\$2,613,656</u> |

**VILLAGE OF FAIRPORT HARBOR
LAKE COUNTY**

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2004 AND 2003
(Continued)**

8. RETIREMENT SYSTEMS

The Village's law enforcement officers and firefighters belong to the Ohio Police and Fire Pension Funds (OP&F). Other full-time employees belong to the Ohio Public Employees Retirement System (OPERS). OP&F and OPERS are cost-sharing, multiple-employer plans. The Ohio Revised Code prescribes the plans' retirement benefits, including postretirement healthcare and survivor and disability benefits.

The Ohio Revised Code also prescribes contribution rates. For 2004 and 2003, OP&F participants contributed 10 percent of their wages. The Village contributed an amount equal to 19.5 percent of police participant and 24 percent of fire participant wages. OPERS members contributed 8.5 percent of their wages. The Village contributed an amount equal to 13.55 percent of participants' gross salaries. The Village has paid all contributions required through December 31, 2004.

9. RISK MANAGEMENT

Commercial Insurance

The Village has obtained commercial insurance for the following risks:

- Comprehensive property and general liability;
- Vehicles; and
- Errors and omissions.

The Village also provides health insurance to full-time employees through a private carrier.

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**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***

Village of Fairport Harbor
Lake County
220 Third Street
Fairport Harbor, Ohio 44077

To the Village Council:

We have audited the financial statements of the Village of Fairport Harbor, Lake County, Ohio, (the Village) as of and for the years ended December 31, 2004 and December 31, 2003, and have issued our report thereon dated September 1, 2005, wherein we noted the Village restated its cash fund balance as of January 1, 2003 in the Expendable Trust Fund. We also noted that the Village prepared its financial statements using accounting practices the Auditor of State established rather than accounting principles generally accepted in the United States of America. 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 Village'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 Village's management dated September 1, 2005, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the Village'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 Village's management dated September 1, 2005 we reported an other matter related to noncompliance we deemed immaterial.

Lausche Building / 615 Superior Ave., NW / Twelfth Floor / Cleveland, OH 44113-1801
Telephone: (216) 787-3665 (800) 626-2297 Fax: (216) 787-3361
www.auditor.state.oh.us

Village of Fairport Harbor
Lake County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of management and Village Council. 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

September 1, 2005



**Auditor of State
Betty Montgomery**

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

VILLAGE OF FAIRPORT HARBOR

LAKE COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 11, 2005**