

CITY OF OBERLIN, OHIO

OMB-A-133 FINANCIAL AND COMPLIANCE AUDIT

FOR THE YEAR ENDED DECEMBER 31, 1998

**WATSON
RICE & CO.**

Certified Public Accountants

CITY OF OBERLIN, OHIO

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OFFICE OF THE AUDITOR

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Members of Council
City of Oberlin
Oberlin, Ohio

We have reviewed the Independent Auditor's Report of the City of Oberlin, Lorain County, prepared by Watson, Rice & Co., for the audit period January 1, 1998 to December 31, 1998. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Oberlin is responsible for compliance with these laws and regulations.



JIM PETRO
Auditor of State

January 13, 2000



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A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

Members of Council
CITY OF OBERLIN, OHIO

We have audited the accompanying general purpose financial statements of the City of Oberlin, Ohio (the City) as of and for the year ended December 31, 1998, as listed in the table of contents. These financial statements are the responsibility of the City'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 generally accepted auditing standards, 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 City at December 31, 1998, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 1999 on our consideration of the City's internal control structure over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audit of States, Local Governments, and Non-profit Organizations, and is not a required part of the general purpose financial statements. The segment information-enterprise funds is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion is fairly presented in relation to the general purpose financial statements taken as a whole.

Watson, Rice + Co.

November 5, 1999

CITY OF BERLIN, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 FOR THE YEAR ENDED DECEMBER 31, 1998

	GOVERNMENTAL FUND TYPES			PROPRIETARY FUND TYPES			FIDUCIARY FUND TYPES			TOTAL MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE SERVICE	INTERNAL SERVICE	EXPENDABLE TRUST & AGENCY TRUST	NON EXPENDABLE TRUST	GENERAL FIXED ASSETS	
ASSETS										
Cash and Cash Equivalents	\$172,606	\$363,943	\$360,067	\$510,265	\$4,534,838	\$12,319	\$675,398	\$143,062		\$6,772,518
Restricted Cash							165,442			165,442
Investments	1,514,059	129,256		4,425,586			504,211			6,573,112
Net Receivables	354,561	91,116	146,184	7,552	1,087,485		36,987			1,723,885
Due From Other Funds	96,530	46,021	71,219		556,485					770,255
Accrued Interest Receivable	17,063			19,191			51			36,325
Prepaid Expenses	8,973	425		4,461		62				13,921
Inventory at Cost				454,258		34,273				488,531
Property, Plant & Equipment				25,809,988		164,453			11,881,276	37,855,717
Less: Accumulated Depreciation				(10,584,820)		(143,314)				(10,728,134)
Amount Available in Debt Service Fund									360,087	360,087
Amount to be provided for Retirement of General Long-Term Obligations									1,147,118	1,147,118
TOTAL ASSETS	\$2,163,812	\$630,761	\$577,490	\$517,817	\$26,307,472	\$67,793	\$1,382,089	\$143,062	\$11,881,276	\$1,507,205
										\$45,178,777

CITY OF OBERLIN, OHIO
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 1998

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES		TOTAL MEMORANDUM ONLY		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE SERVICE	INTERNAL SERVICE	EXPENDABLE TRUST & AGENCY TRUST	NON EXPENDABLE TRUST		GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS
LIABILITIES											
Accounts Payable	\$96,972	\$4,164	\$0	\$0	\$398,985	\$5,347	\$152,955	\$0	\$0	\$0	\$652,443
Accrued Wages and Benefits	146,186	16,794			118,933	5,652	39,825				327,290
Compensated Absences	136,918	10,922			148,742	6,303				128,623	425,588
Due To Other Funds	24,446	15,041	149,437		556,431		28,900				770,255
Due To Other Agencies	6,379										6,379
Amounts Held as Fiduciary							165,442				165,442
O.P.W.C. Loans Payable					64,881						64,881
O.W.D.A. Loans Payable					2,544,156						2,544,156
Deferred Revenues	316,416	91,116	146,184		1,009,446	36,447					1,659,699
Bond Discount					(2,527)						(2,527)
Retainage Payable							63,881				63,881
Revenue Bonds Payable					2,415,000						2,415,000
General Obligation Bonds Payable					48,000					1,359,000	1,398,000
Computer Equipment Note Payable									28,582		28,582
Deposits Payable								189,548			189,548
TOTAL LIABILITIES	\$711,368	\$138,837	\$295,621	\$0	\$7,361,247	\$17,382	\$487,450	\$189,548	\$0	\$1,597,295	\$18,627,718
FUND EQUITY											
Investment in General											
Fixed Assets									11,881,276		11,881,276
Reserve of Encumbrances								24,700			24,700
Retained Earnings - Unreserved					18,946,725	58,491		8,814			19,005,530
FUND BALANCE											
Reserve for Debt Service			281,869								281,869
Reserve for Encumbrances	59,659	5,654		27,550			286,405				379,268
Designated for Medical Benefits	38,881			490,287			608,234				38,881
Unreserved	1,353,964	487,070									2,939,555
TOTAL FUND EQUITY/BALANCE	1,452,504	492,724	281,869	517,817	18,946,225	50,491	894,639	33,514	11,881,276	0	34,551,659
TOTAL LIABILITIES & FUND EQUITY	\$2,163,812	\$639,761	\$577,490	\$517,817	\$26,387,472	\$67,793	\$1,382,089	\$143,662	\$11,881,276	\$1,597,295	\$45,178,777

The Accompanying Footnotes are an Integral Part of These Financial Statements.

CITY OF OBERLIN, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSE AND CHANGES IN RETAINED EARNINGS
 ALL GOVERNMENTAL FUND TYPES AND SIMILAR FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1998

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPES		TOTAL MEMORANDUM ONLY
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST		
REVENUE RECEIPTS:							
Property Taxes	\$313,654	\$89,954	\$150,335		\$276,359		\$830,302
Municipal Income Tax					3,049,683		3,049,683
Intergovernmental Receipts	804,935	759,652					1,564,587
Charges for Services	71,856						71,856
Interest Earnings	168,560	7,390	3,141		310		179,401
Special Assessments			16,778				16,778
Fines, Fees, Licenses and Permits	474,477			75,676	16,413		566,566
All Other Revenue	23,100	33,972		226,737	2,387		286,196
TOTAL REVENUE RECEIPTS	1,856,582	890,968	170,254	302,413	3,345,152		6,565,369
EXPENDITURE DISBURSEMENTS:							
Security of Persons and Property	1,326,614	45,209			223,675		1,595,498
Public Health and Welfare	84,147						84,147
Leisure Time Activity	254,395			12			254,407
Community Environment	330,161	419,057			1,186		750,404
Transportation		176,086			13,726		189,812
General Government	1,803,317	10,243	3,319	12,880	174,077		2,003,836
Other		264			273,030		273,294
Capital Outlays	91,339	60,963			569,969		1,421,633
Basic Utility Service		43,907			7,228		51,135
Debt Service:							
Bond Principal Retirement			171,167				171,167
Note Principal Retirement							
Interest and Fiscal Charges			109,477				109,477
TOTAL EXPENDITURE DISBURSEMENTS	3,889,973	755,729	283,963	712,254	1,262,891		6,904,810
Total Revenue Receipts Over (Under)	(2,033,391)	(135,289)	(113,709)	(409,841)	2,082,261		(339,441)
Expenditure Disbursements							
OTHER FINANCING SOURCES (Uses):							
Insurance Proceeds					114,500		114,500
Proceeds From Sale of Fixed Assets	33,728	120		36,000			69,848
Operating Transfers - In	2,600,541	191,264	141,598	144,758	98,029		3,176,190
Operating Transfers - Out	(331,394)	(66,282)			(2,178,604)		(2,576,280)
TOTAL FINANCING SOURCES (USES)	2,302,875	125,102	141,598	180,758	(1,966,075)		784,258
EXCESS Of Receipts & Other Sources Over (Under) Disbursements & Other Uses	269,484	260,341	27,889	(229,083)	116,186		444,817
Fund Balance - January 1, 1998	1,183,020	232,383	253,981	675,338	778,453		3,123,175
Prior Year Audit Adjustment				71,562			71,562
Fund Cash Balance - December 31, 1998	\$1,452,504	\$492,724	\$281,870	\$517,817	\$894,639		\$3,639,554

The accompanying footnotes are an integral part of the financial statements.

CITY OF OBERLIN, OHIO
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
 ALL PROPRIETARY FUND TYPES AND SIMILAR FIDUCIARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1998

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TRUST	TOTAL MEMORANDUM ONLY
	ENTERPRISE	INTERNAL SERVICE	NON EXPENDABLE TRUST	
OPERATING REVENUES:				
Charges for Services	\$9,832,306	\$168,231	\$0	\$10,000,537
Other Operating			1,587	1,587
TOTAL OPERATING REVENUES	9,832,306	168,231	1,587	10,002,124
OPERATING EXPENSES:				
Operations	1,298,941	226,721	1,131	1,526,793
Maintenance	620,282			620,282
Purchased Power	3,685,036			3,685,036
Distribution	193,155			193,155
Administration	689,088			689,088
Depreciation & Amortization	1,343,916	17,175		1,361,091
TOTAL OPERATING EXPENSES	7,830,418	243,896	1,131	8,075,445
OPERATING INCOME (LOSS)	2,001,888	(75,665)	456	1,926,679
NONOPERATING REVENUES (EXPENSES)				
Gain(Loss) on Disposal of Fixed Assets	1,115			213,250
Interest Income	212,135			(118,256)
Interest Expenses & Fiscal Charges	(330,391)			158,260
Other Nonoperating Revenues	158,260			
TOTAL NONOPERATING REVENUES (EXPENSES)	41,119	0	0	253,254
INCOME (LOSS) BEFORE OPERATING TRANSFERS	2,043,007	(75,665)	456	2,179,933
Operating Transfer - In	1,443,703			1,443,703
Operating Transfer - Out	(2,042,113)	(1,500)		(2,043,613)
NET INCOME (LOSS)	1,444,597	(77,165)	456	1,367,888
Retained Earnings - January 1, 1998	17,501,628	127,656	33,058	17,662,342
RETAINED EARNINGS AT DECEMBER 31, 1998	\$18,946,225	\$50,491	\$33,514	\$19,030,230

The accompanying notes are an integral part of the financial statements.

CITY OF OBERLIN - LORAIN COUNTY
 COMBINED STATEMENT OF RECEIPTS AND EXPENDITURES - BUDGET & ACTUAL
 NON-GAAP BUDGETARY BASIS - ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

	GENERAL FUND			SPECIAL REVENUE FUND		
	BUDGET	ACTUAL RECEIPTS	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL RECEIPTS	VARIANCE FAVORABLE (UNFAVORABLE)
TOTAL RECEIPTS INCLUDING TRANSFERS	\$4,186,344	\$4,569,521	\$383,177	\$1,004,777	\$1,127,343	\$122,566
EXPENDITURES:		BUDGETARY ACTUAL EXPENSES			BUDGETARY ACTUAL EXPENSES	
Security of Persons & Property	\$1,394,442	\$1,326,129	\$68,313	\$50,000	\$45,209	\$4,791
Public Health & Welfare	348,490	81,147	267,343			0
Leisure Time Activities	0	262,585	(262,585)			0
Community Environment	410,121	329,007	81,114	0	386,254	(386,254)
Transportation	0	0	0	259,983	183,021	76,962
General Government	1,927,746	1,805,344	122,402	0	10,333	(10,333)
Capital Outlays	117,259	98,908	18,351	41,000	60,963	(19,963)
Debt Service					264	(264)
Other						
Basic Utility Service				71,969	60,939	11,030
Other Expenses						
Operating Transfers Out	375,432	331,394	44,038	56,282	66,262	(9,980)
TOTAL EXPENDITURES	4,573,490	4,234,514	338,976	479,234	813,245	(334,011)
Excess of Receipts Over(Under) Expenditures	(\$387,146)	\$335,007	\$722,153	\$525,543	\$314,098	(\$211,445)

CITY OF OBERLIN - LORAIN COUNTY
 COMBINED STATEMENT OF RECEIPTS AND EXPENDITURES - BUDGET & ACTUAL
 NON-GAAP BUDGETARY BASIS - ALL GOVERNMENTAL FUND TYPES
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

	CAPITAL PROJECTS FUND			EXPENDABLE TRUST FUND		
	BUDGET	ACTUAL RECEIPTS	VARIANCE FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL RECEIPTS	VARIANCE FAVORABLE (UNFAVORABLE)
TOTAL RECEIPTS INCLUDING TRANSFERS	\$300,000	\$475,619	\$175,619	\$2,935,650	\$3,407,470	\$471,820
BUDGETARY EXPENDITURES:		BUDGETARY ACTUAL EXPENSES			BUDGETARY ACTUAL EXPENSES	
Security of Persons & Property				156,500	223,675	(67,175)
Public Health & Welfare				0	0	0
Leisure Time Activities		12	(12)			
Community Environment				5,000	1,921	3,079
Transportation					13,726	(13,726)
General Government		14,101	(14,101)	25,000	173,622	(148,622)
Capital Outlays	65,000	53,339	11,661	2,583,867	1,242,463	1,341,404
Debt Service					7,228	(7,228)
Basic Utility Services					273,030	(273,030)
Operating Transfers Out				2,268,664	2,178,604	90,060
TOTAL EXPENDITURES	65,000	67,452	(2,452)	5,039,031	4,114,269	924,762
TOTAL EXPENDITURES	\$235,000	\$408,167	\$173,167	(\$2,103,381)	(\$706,799)	\$1,396,582

The Accompanying Footnotes are an Integral Part of These Financial Statements.

CITY OF OBERLIN, OHIO
 COMBINED STATEMENT OF RECEIPTS AND EXPENDITURES-BUDGET & ACTUAL
 NON-GAAP BUDGETARY BASIS-ALL GOVERNMENT FUND TYPES
 FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

	DEBT SERVICE FUND		VARIANCE
	BUDGET	ACTUAL RECEIPTS	FAVORABLE (UNFAVORABLE)
TOTAL RECEIPTS INCLUDING TRANSFERS	\$259,547	\$314,993	\$55,446
EXPENDITURES:			
Security of Persons & Property			
Public Health & Welfare			
Leisure Time Activities			
Community Environment			
Transportation			
General Government	\$0	\$3,416	(\$3,416)
Capital Outlays			
Debt Service	333,500	280,644	52,856
Other			
Basic Utility Service			
Other Expenses			
Operating Transfers Out			
TOTAL EXPENDITURES	333,500	284,060	49,440
Excess of Receipts Over(Under) Expenditures	(\$73,953)	\$30,933	\$104,886

The Accompanying Footnotes are an Integral Part of These Financial Statements.

CITY OF CBERLIN, OHIO
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1998

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	TOTAL MEMORANDUM ONLY
	ENTERPRISE	INTERNAL SERVICE	NON EXPENDABLE TRUST	
Cash Balances January 1, 1998	\$6,714,636	\$70,780	\$124,183	\$6,909,599
Cash Provided From Operations				
Charges for Services	9,698,391	168,231		9,866,622
Operating Expenses	(7,085,616)	(230,705)	(1,131)	(7,317,452)
Other Operating Revenues			1,587	1,587
Net Increase in Deposits Held			18,423	18,423
Total Cash Provided From Operations	2,612,775	(62,474)	18,879	2,569,180
Non-Capital Financing Activities:				
Operating Transfers In(Out) Net	(598,410)	(1,500)		(599,910)
Total Cash Provided(Used) From Non-Capital Financing Activities	(598,410)	(1,500)	0	(599,910)
Investing Activities:				
Acquisition of Fixed Assets	(373,192)			(373,192)
Disposition of Fixed Assets		5,513		5,513
Increase of Investments	(3,424,176)			(3,424,176)
Gain on Disposal of Fixed Assets	1,115			1,115
Total Cash (Used) by Investing Activities	(3,796,253)	5,513	0	(3,790,740)
Capital and Related Financing Activities:				
Retirement of Bond & Loan Principal	(361,870)			(361,870)
Proceeds Computer Note Retirement	27,917			27,917
Investment Interest Income	192,944			192,944
Investment Interest Expense	(330,391)			(330,391)
Grants & Local Tax Support	158,260			158,260
Total Cash Provided From Financing Activities	(313,140)			(313,140)
Increase (Decrease) in Cash	(2,095,028)	(58,461)	18,879	(2,134,610)
Cash Balance - December 31, 1998	\$4,619,608	\$12,319	\$143,062	\$4,774,989
Reconciliation of Operating Income(Loss) to Net Cash Provided(Used) by Operating Activities:				
Operating Income(Loss)	\$2,001,888	(\$75,665)	\$456	\$1,926,679
Adjustments to Reconcile Change in Retained Earnings to Net Cash Provided from Operations:				
Depreciation Expense	1,340,060	17,175		1,357,235
Increase in Due From Other Funds	(86,653)			(86,653)
Decrease (Increase) in Prepaid Expenses	406	(62)		344
Increase in Accounts Receivable	(133,915)			(133,915)
(Decrease) Increase in Accounts Payable	6,713	(1,361)		5,352
Increase in Accrued Wages	12,652	1,359		14,011
(Decrease) Increase in Compensated Absences	(14,944)	1,055		(13,889)
Increase in Due to Other Funds	88,770			88,770
Decrease in Deferred Revenue	(629,370)			(629,370)
(Increase) Decrease in Inventory	27,168	(4,975)		22,193
Increase in Deposits Held in Trust			18,423	18,423
Net Cash Provided by Operating Activities	\$2,612,775	(\$62,474)	\$18,879	\$2,569,180

The Accompanying Footnotes are an Integral Part of These Financial Statements.

CITY OF OBERLIN, OHIO
 SEGMENT INFORMATION - ENTERPRISE FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 1998

	ELECTRIC	SEWER	WATER	SOLID WASTE	CABLE PROGRAMMING	EQUIPMENT REPLACEMENT	TOTAL ENTERPRISE FUNDS
OPERATING STATEMENT:							
Operating Revenues	\$7,080,506	\$1,376,403	\$1,153,545	\$215,031	\$6,821	\$0	\$9,832,306
OPERATING EXPENSES:							
Operations	156,402	337,071	363,824	271,755	18,579		1,147,631
Maintenance	422,198	11,418	29,154	30,204		3,666	496,640
Purchased Power	3,685,036						3,685,036
Distributions	435,196	110,614	81,091				626,901
Administration	392,862	8,646	128,188	575		25	530,296
Depreciation & Amortization	531,505	507,625	278,956	23,450	2,380		1,343,916
							0
Total Operating Expenses	5,623,199	975,374	881,213	325,984	20,959	3,691	7,830,420
OPERATING INCOME (LOSS)	1,457,307	401,029	272,332	(110,953)	(14,138)	(3,691)	2,001,886
Non-Operating Revenues (Expenses)	105,178	(232,817)	(62,195)	143,465		87,488	41,119
Net Transfers	(252,690)	(99,815)	(101,795)	96,080		(240,190)	(598,410)
NET INCOME (LOSS)	\$1,309,795	\$68,397	\$108,342	\$128,592	(\$14,138)	(\$156,393)	\$1,444,595
OTHER INFORMATION:							
Net Working Capital	4,068,690	1,621,106	1,551,527	40,598	27,813	1,087,558	8,397,292
Fixed Assets: Net of Allowable	5,644,702	5,822,974	3,489,948	249,688	17,856	0	15,225,168
Total Assets	11,182,506	8,027,749	5,469,912	491,960	27,813	1,107,531	26,307,471
Bonds & OWDA Loan Payable		4,097,026	974,211				5,071,237
Total Equity	9,713,392	3,603,937	4,205,383	290,286	27,813	1,105,414	18,946,225

The Accompanying footnotes are an Integral Part of These Financial Statements.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The City of Oberlin (City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City gained city status in 1951 and is a home rule municipal corporation under the laws of the State of Ohio. The City operates under a council-city manager form of government and provides the following services as authorized by the charter: public safety, public services, and recreation. Education services are provided by the Oberlin School District. The school district is a separate governmental entity and its financial statements are not included in these financial statements. The City of Oberlin Municipal Court financial results are included as a part of these financial statements.

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB Statement No. 14), the financial reporting entity consists of the City (the primary government) as well as its component units. Component units are defined as legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either; a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government.

Based upon the foregoing criteria, these financial statements do not include any component units.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized when they become measurable and available. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. An exception to this general rule is interest on general long-term obligations, which is recognized when due. Accordingly, the assets and related liabilities are

CITY OF OBERLIN - Lorain County
Notes to Financial Statements - (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting (Continued)

recognized when the assets become both measurable and available. Agency assets and liabilities are recognized on the modified accrual basis and do not involve a measurement focus.

Revenues susceptible to accrual under the modified accrual basis of accounting consist primarily of the following: (1) municipal income taxes; (2) delinquent property taxes; (3) accrued interest. Property taxes are considered to be "measurable" when billed by the third party collecting agency. These revenues are considered to be available whenever they have been received by the collecting agency and are recognized as revenue at that time.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

C. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The City's resources are allocated to and accounted for in individual funds based upon the purposes of which they are to be spent and the means by which spending activities are controlled. The individual funds are grouped into seven generic fund types and two broad groups of accounts categories, each of which is discussed below:

Governmental Funds

General Fund

The general fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund. The general fund balance is available for any purpose, provided it is expended or transferred in accordance with the City Charter and legislation of the City of Oberlin and/or the general laws of the State of Ohio.

Special Revenue Funds

Special revenue funds are used to account for the proceeds of the specific revenue sources (other than special assessment, expendable trusts or major capital projects) that are restricted by law or administrative action to expenditures for specified purposes. The City's special revenue funds consist of the following:

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Special Revenue Funds (Continued)

- Street Construction Maintenance and Repair
- State Highway Improvements
- Library Levy
- CDBG Business
- County Recycling
- State Recycling
- D.A.R.E. Grant
- CDBG - Community Housing Improvement Program
- Ohio Department of Natural Resources Grant
- C.O.P. Grant
- Fire Training Fund
- CDBG Housing Rehabilitation Revolving Loan Program
- Intercession/Fellowship
- Vacation/Sick Leave Fund
- After School Program Fund

Debt Service Funds

Debt service funds are utilized to account for the payment of voted and unvoted debt obligations of the City. Proceeds from tax issues designated for payment of City debt are deposited in these funds. The City's debt funds consist of the following:

- General Obligation Debt
- Councilmatic Debt
- Special Assessments Debt

Capital Projects Funds

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). Depreciation is not recorded for these fixed assets. The City's capital projects funds consist of the following:

- Open Space
- Industrial Park Improvement
- Spring Street Park
- Computer Construction
- Oberlin Municipal Court Improvements
- Fire Truck Construction Fund
- Subdivision Review and Improvement
- Sidewalk Improvement Fund

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the residents on a continuing basis be financed or recovered primarily through user charges or where the governing body has 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 purpose. The City's Enterprise Funds consist of the following:

- Water
- Sewer
- Sewer Replacement/Reserve
- Electric
- Sewer Debt Service
- Refuse - Solid Waste (Garbage)
- Water Replacement/Reserve
- Sewer Debt Service Reserve
- Electric Replacement/Reserve
- Cable Programming
- Sewer Construction Fund
- Equipment Replacement

Internal Service Funds

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's internal service funds consist of the following:

- Central Garage
- Office Inventory
- General Plant Supplies

Fiduciary Funds

Fiduciary funds consist of expendable and non-expendable trust funds and agency funds.

Expendable trust funds and agency funds are accounted for using the modified accrual basis of accounting similar to governmental funds. Nonexpendable trust funds are accounted for using the accrual basis of accounting, the same basis of accounting as the proprietary funds of the City.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trust Funds

Trust funds are used to account for assets held by the City on a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. The City's trust funds consist of both expendable trust funds and non-expendable trust funds and consist of the following:

- Police Pension - Expendable Trust
- Fire Pension - Expendable Trust
- Cemetery Tree Trust - Expendable Trust
- Vee Long Nursery Trust - Expendable Trust
- Income Tax Fund - Expendable Trust
- Martin Luther King Park Trust - Expendable Trust
- Julia Severance Endowment - Nonexpendable Trust
- Charles M. Hall Endowment - Nonexpendable Trust
- Gager - Wilmot Endowment - Nonexpendable Trust
- Street Deposits - Nonexpendable Trust
- Permanent Police Levy - Expendable Trust
- Law Enforcement Trust - Expendable Trust
- Dare Trust - Expendable Trust
- Payroll Imprest - Expendable Trust
- Holiday Beautification - Expendable Trust
- Oberlin Youth Council - Expendable Trust
- Unemployment Compensation - Expendable Trust
- Utility Deposits - Nonexpendable Trust
- Claimed Fund - Expendable Trust
- Cable T.V. Deposits - Nonexpendable Trust
- Cable T.V. Complete/Performance - Nonexpendable Trust
- Indigent Alcohol Treatment - Expendable Trust
- Utility Caring - Nonexpendable Trust
- War Memorial - Nonexpendable Trust

Agency Funds

Agency funds are used to account for assets held by the City in an agency capacity for individuals, private organizations, other governmental units and/or other funds. Agency Funds are custodial in nature and do not involve measurement of results of operations. The City's Agency Funds consist of the following:

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Agency Funds (Continued)

Oberlin Municipal Court
Utility Escrow / Underground Utilities
Water Escrow - Central
Walter Jones Escrow
Akil Construction Fund
Fox Excavating Escrow
Northbay Escrow
Erie Blacktop Escrow

Account Groups

General Fixed Assets Account Group

Accounts for all fixed assets of the City, except accounted for in the Proprietary Funds.

General Long-Term Obligations Account Group

Accounts for all unmatured long-term obligation of the City, except the accounted for in the Proprietary Funds.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Proprietary Fund types consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E. Investments

Investments at December 31, 1998, amounted to \$6,573,112 and are stated at cost which approximates market value. All investments are held until maturity and had a maturity date of less than one year as of December 31, 1998.

F. Inventories

Inventories are stated at the lower of cost or market in the Proprietary Funds on the weighted average cost basis. The cost of inventory items are expensed in the Proprietary Funds when used.

G. Fixed Assets

Fixed assets include land, buildings, improvements, construction in progress and equipment owned by the City. When purchased, such assets are recorded as expenditures in the Governmental Funds and are accounted for in the General Fixed Assets Account Group.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Fixed Assets - (Continued)

Infrastructure fixed assets such as streets, sidewalks, curbs and gutters are capitalized by the City and are reported as part of the General Fixed Assets Account Group.

Fixed assets including water and sewer infrastructure improvement in the Proprietary Funds are capitalized in the individual funds in which they are utilized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Depreciation on fixed assets used in proprietary funds is computed and recorded using the straight-line method over the estimated useful lives of the fixed assets.

Estimated useful lives of the various classes of proprietary funds fixed assets are as follows:

	Vehicles	7 years
	Buildings	20-45 years
Infrastructure & System Improvements		20 years
	Furniture & Equipment	5-7 years
	Electric Generator/Engine	10 years

H. Intergovernmental Revenues

Federal reimbursable - type grants recognize intergovernmental receivables and revenues when reimbursement is requested from the grantor agency.

I. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets, and service debt. The accompanying combined financial statements generally reflect such transactions as operating transfers. To the extent that certain transactions between funds had not been paid or received as of December 31, 1998, interfund amounts due from or due to have been recorded.

J. Accounting and Financial Reporting for Proprietary Funds

Under the guidelines of Governmental Accounting Standards Board Statement 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- J. Accounting and Financial Reporting for Proprietary Funds (Continued)
Proprietary Fund Accounting", the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, to proprietary activities. The adoption of this approach to accounting for proprietary activities by the City required no change from prior years.
- K. Total Columns on Combined Statements
Total columns on the Combined Statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles nor as such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2 LEGAL COMPLIANCE - BUDGETS

Budget and Budgetary Accounting

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the presentation of budgetary documents within an established timetable. The major documents prepared in the process are the tax budget, the certificate of estimated resources and the appropriation measures. These budgetary documents are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources as certified.

Tax Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as secretary of the County Budget Commission, by July 20th of each year, for the period January 1, to December 31st of the following year.

Estimated Resources

The County Budget Commission Certifies its action to the City by September 1st. As part of this certification, the City receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1st this certificate is amended to include any encumbered balance from the preceding year. The City must then revise its budget so that the total contemplated expenditures from any during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 2 LEGAL COMPLIANCE - BUDGETS (CONTINUED)

Appropriation

A temporary appropriation measure to control cash disbursements may be passed on or about January 1st of each year for the period January 1st to March 31st. An annual appropriation measure must be passed by April 1st of each year for the period January 1st, to December 31st. The appropriation measure may be amended during the year as new information becomes available, provided that total appropriations do not exceed estimated resources as certified.

Encumbrances

The City is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. Under the modified accrual basis of accounting, encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures of liabilities.

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations. The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated.

Budget Basis of Accounting

Appropriations for all operating funds are adopted at the fund level on the cash basis with encumbrances being changed against the related appropriation. Administrative control is maintained through the establishment of more detailed line item budgets.

Budgetary Reporting

The budgetary process, in accordance with Ohio Law, is accounted for on the basis of cash receipts and disbursements. Accordingly, the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types" 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 modified accrual basis of generally accepted accounting principles (GAAP basis) are that:

Revenues are recorded when received (budget basis) rather than when susceptible to accrual (GAAP basis).

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 2 LEGAL COMPLIANCE - BUDGETS (CONTINUED)

Budgetary Reporting (Continued)

Expenditures are recorded when paid (budget basis) rather than when the liability is incurred (GAAP basis).

Note proceeds and repayments are reflected as revenue received and expenditures paid (budget basis) rather than having no effect on results of operations (GAAP basis).

The adjustments necessary to convert the results of operations for the year from the budget basis to the GAAP basis for the governmental funds follow.

Excess of Revenue and Other Sources
Over (Under) Expenditures and Other Uses -
Reconciliation of GAAP Basis to Budget Basis

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Project Funds</u>	<u>Expendable Trust Funds</u>
Budget Basis Surplus (Deficit)	\$335,007	\$314,098	\$30,933	\$408,167	\$ (706,799)
Revenue Accruals Adjustments	(78,670)	(44,991)	(3,141)	7,552	150,211
Expenditure Accruals	<u>13,147</u>	<u>(8,766)</u>	<u>97</u>	<u>(644,802)</u>	<u>672,774</u>
Adjustments					
GAAP Basis, As Reported	<u>\$269,484</u>	<u>\$260,341</u>	<u>\$27,891</u>	<u>\$(229,083)</u>	<u>\$ 116,186</u>

Note 3 PROPERTY TAX

The City's real property tax is levied each January 1st on the assessed value of the property on October 1st of the previous year. Assessed values are established by the County Auditor at 35% of current market value, and reappraisal of all property is required every six years with triennial update. The last reappraisal was completed for tax year 1994/95. The assessed values per category applicable to 1998 and 1997 collections are as follows:

	<u>Collection Year 1998</u>
	<u>Tax Valuation Year 1997</u>
Real Estate	\$76,317,100
Personal Property	<u>20,640,983</u>
Total Valuation	<u>\$96,958,083</u>

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 3 PROPERTY TAX (CONTINUED)

The City personal property tax is determined by the County Auditor based on annual tax returns filed by taxpayers with the County Auditor. The property is assessed for tax purposes at varying statutory percentages of cost.

The tax rate levied to finance the City's services and debt service obligations for the year ended December 31, 1998, was \$11.32 per \$1,000 of real estate and personal property valuation.

The Lorain County Treasurer collects the property taxes on behalf of all taxing districts within the county including the City of Oberlin. Taxes are payable to the county in two equal installments in January and July and, if not paid, become delinquent after December 31 of the year they are due. The Lorain County Auditor periodically remits to the City its portion of the taxes collected. Such collections are available only to pay current period liabilities.

A receivable totaling \$1,659,609 and corresponding deferred revenue have been recorded in the various funds of the City, including \$116,375 for the portion of the taxes levied prior to December 31, 1998 which are delinquent, and \$1,543,234 which was levied on January 1, 1999 on the assessed value of property on October 1, 1998. This amount is measurable, but not available in the current period.

Note 4 CITY INCOME TAX

The City Income tax is applied to the gross salaries, wages and other personnel service compensation earned by residents of the City and to the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. The tax rate was 1.5% of earnings for 1998. Employees 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 individuals are required to estimate these taxes quarterly and file a declaration annually.

Note 5 INTERFUND TRANSACTIONS

During the course of normal operations, the City had numerous transactions between funds, most of which are in the form of transfers of resources to provide services or to service debt. The accompanying financial statements generally reflect such transactions as operating transfers. To the extent that certain transactions between funds had not been paid or received as of December 31, 1998, interfund amounts receivable or payable have been recorded. Individual fund interfund receivable and payable balances at December 31, 1998 are as follows:

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 5 INTERFUND TRANSACTIONS (CONTINUED)

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 96,530	\$ 20,446
Special Revenue Funds:		
- Community Housing Improvement Program	28,900	
- County Recycling		15,041
- Street Maintenance & Repair	17,121	
Debt Service Funds:		
- General Obligation Debt	19,770	114,145
- Special Assessment Debt	51,449	35,292
Expendable Trust Fund:		
- Income Tax Fund		28,900
Enterprise Funds:		
- Sewer Fund	290,232	235,686
- Electric Fund	1,005	105,635
- Refuse Fund	10,895	
- Water Fund	173,765	215,110
- Equipment Replacement Fund	<u>80,588</u>	<u> </u>
Total Current Interfund Receivables/ Payables at 12-31-98	<u>\$770,255</u>	<u>\$770,255</u>

Note 6 CHANGES IN GENERAL FIXED ASSET GROUP OF ACCOUNTS

<u>Balance 01-01-98</u>	<u>1998 Additions</u>	<u>1998 Disposals</u>	<u>Balance 12-31-98</u>
<u>\$10,607,699</u>	<u>\$1,343,038</u>	<u>\$(69,461)</u>	<u>\$11,881,276</u>

Note 7 FIXED ASSETS & RELATED DEPRECIATION

In 1988 an independent appraisal of fixed assets was performed in order to determine estimated historical costs for the conversion to accrual basis reporting. From that date to the date of this report, historical costs of depreciable assets has been utilized. The following is a summary of major classes of depreciable assets, depreciation methods and estimated useful lives for proprietary fund types:

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 7 FIXED ASSETS & RELATED DEPRECIATION (CONTINUED)

<u>Asset Class</u>	<u>Balance</u> <u>12-31-98</u>	<u>Depreciation</u> <u>Method</u>	<u>Useful Life</u>
<u>Enterprise Funds</u>			
Land	\$ 327,980	N/A	N/A
Buildings	3,471,033	Straight Line	20 to 45 yrs.
Furniture & Equipment	1,512,099	Straight Line	5 to 7 yrs.
Electric Generator/Engine	1,557,298	Straight Line	10 yrs.
Vehicles	1,038,069	Straight Line	7 yrs.
System Improvement	<u>17,903,509</u>	Straight Line	20 yrs.
Total	<u>\$ 25,809,988</u>		
Less Accumulated Depreciation	<u>\$ (10,584,820)</u>		
Net Fixed Assets-Enterprise Fund	<u>\$ 15,225,168</u>		
<u>Internal Service Funds</u>			
Buildings	\$ 51,100	Straight Line	25 yrs.
Furniture & Equipment	<u>113,353</u>	Straight Line	7 yrs.
Sub-Total	<u>\$ 164,453</u>		
Less Accumulated Depreciation	<u>\$ 143,314</u>		
Net Fixed Assets - Internal Service Funds	<u>\$ 21,139</u>		

Note 8 PENSION PLAN OBLIGATIONS

The City of Oberlin contributes to the Police and Firemen's Disability and Pension Fund (PFDPF) 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 Legislative and are codified in Chapter 742 of the Ohio Revised Code. The PFDPF 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 PFDPF, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City of Oberlin's contributions to PFDPF for the years ending December 31, 1998, 1997 and 1996 were \$169,533, \$155,658, and \$144,995, respectively, equal to the required contributions for each year.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 8 PENSION PLAN OBLIGATIONS (CONTINUED)

The City of Oberlin contributes to the Public Employees Retirement System of Ohio (PERS) which is a cost provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by state statute per Chapter 145 of the Ohio Revised Code. The PERS 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).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5% for employees other than law enforcement. All City of Oberlin employees contribute to PERS at the employee contribution rate of 8.5%. The 1998 employer contribution rate for the City of Oberlin was 13.55% of covered salary. The City of Oberlin's contribution to PERS for the years ending December 31, 1998, 1997 and 1996 were \$425,730, \$380,921 and \$365,907, respectively, equal to the required contributions for each year.

Required employer contributions are equal to 100% of the dollar amount billed to each employer and is obtained from the employer's records.

Note 9 COMPENSATED ABSENCES

In accordance with Governmental Accounting Standards' Board (GASB) Statement 16, the City has accrued a liability for compensated absences (vacation and sick leave) at December 31, 1998, along with any salary-related payments associated with the payment of compensated absences. For governmental and similar trust funds, the City recognized the current portion of this liability at December 31, 1998, that is expected to be liquidated with expendable available financial resources. The remainder of the compensated absences liability for governmental and similar trust funds is reported in the general long term debt account group. Proprietary funds report the entire liability for compensated absences calculated at December 31, 1998.

Each bargaining unit and the management staff earn vacation at different rates based upon length of service. No more than the amount of vacation accrued in the previous twelve-month period can be carried forward into the next calendar year without consent from the City Manager. Any excess is eliminated from the employee's leave balance. In case of death, termination, or retirement an employee (or his estate), is paid for the unused vacation.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 9 COMPENSATED ABSENCES (CONTINUED)

All full-time employees earn sick leave at the rate of 4.6 hours for each pay period worked. Employees who work a 35 hour work week can accumulate a maximum of 210 hours of accrued sick time. Employees working a 37.5 hour work week accumulate a maximum sick pay accrual of 225 hours and employees working a 40 hour work week can accumulate a maximum accumulated sick leave balance of 240 hours. As of December 31, 1998, the total estimated liability for all unpaid compensated absences was \$425,588 for all funds and account groups.

Note 10 DEBT OBLIGATIONS

Debt outstanding at December 31, 1998 consisting of the following:

General Obligation -Library Bonds - General		
Long-Term Debt Group of Accounts		
Principal Outstanding		\$1,085,000
Interest Rate		6.875%
General Obligation - Downtown Improvement Bonds		
General Long Term Debt Group of Accounts		
Principal Outstanding		\$ 98,167
Interest Rate		9.125%
General Obligation - Computer System Acquisition Bond		
Principal Outstanding		\$ 28,582
Interest Rate		3.5%
General Obligation Debt - Councilmatic		
- City Hall Complex Bond - General Long Term		
Debt Group Accounts		
Principal Outstanding		\$ 35,000
Interest Rates		5.875%
- Fire Station Bonds - General Long Term Debt		
Group of Accounts		
Principal Outstanding		\$ 20,000
Interest Rate		5.875%
General Obligation Bonds - Enterprise Fund		
Noncouncilmatic:		
Principal Outstanding		\$ 48,000
Interest Rate		3.625%

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 10 DEBT OBLIGATIONS (CONTINUED)

Mortgage Revenue Bonds - Enterprise Fund		
Principal Outstanding		\$2,415,000
Interest Rate		4.20% to 7.10%
Special Assessment Bonds - General Long-Term Debt Group of Accounts		
Principal Outstanding		\$ 111,833
Interest Rate		9.125%

Outstanding general obligation bonds consist of downtown improvements, city hall improvements, fire station, fire truck issues, computer construction and library improvements. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged and are payable from taxes levied on all taxable property in the City.

Outstanding special assessment bonds consist of downtown improvements, which are payable from the proceeds of tax assessments against individual property owners.

Mortgage revenue bonds are for sewer extension, improvements and sanitary sewers. Property and revenue of the City has been pledged to repay these debts.

The annual requirements to amortize all bonded debt outstanding as of December 31, 1998, including interest payments of \$1,317,746 are as follows:

Year Ending	General Obligation	Mortgage Revenue	Special Assessment
<u>December 31</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Bonds</u>
1999	\$ 255,721	\$ 316,100	\$25,761
2000	195,631	313,080	24,364
2001	176,762	314,060	22,966
2002	164,088	309,385	21,568
2003	162,017	314,265	20,170
2004	159,603	313,220	18,772
2005	161,845	311,460	17,374
2006	144,375	313,965	
2007	146,812	310,195	
2008	148,563	310,635	
2009	149,625		
Total	<u>\$1,865,042</u>	<u>\$3,126,365</u>	<u>\$150,975</u>

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 10 DEBT OBLIGATIONS (CONTINUED)

The following is a schedule of changes in general long-term debt:

	Balance 01-01-98	1998 Liquidation	1998 New Issues	Balance 12-31-98
<u>General Obligation Bonds</u>				
City Hall Complex	\$ 70,000	\$ 35,000	\$ 0	\$ 35,000
Fire Station	40,000	20,000	0	20,000
Library	1,145,000	60,000	0	1,085,000
Downtown Improvement	112,191	14,024	0	98,167
Sub-Total	<u>\$1,367,191</u>	<u>\$129,024</u>	<u>\$ 0</u>	<u>\$1,238,167</u>
<u>Special Assessment</u>				
Downtown Improvement	\$ 127,809	\$ 15,976	\$ 0	\$ 111,833
Total General Obligation Debt	1,495,000	145,000	0	1,350,000
Computer Equipment Bond	54,749	2,616	0	28,552
Total General Long-Term Debt	<u>\$1,549,749</u>	<u>\$171,167</u>	<u>\$ 0</u>	<u>\$1,378,582</u>

Note 11 LONG TERM FINANCIAL OBLIGATIONS OTHER THAN BONDS AND NOTES

The City has entered into loan agreements with the Ohio Water Development Authority (OWDA) pursuant to which OWDA provided funds to the City for improving the municipal sewage collection and treatment facilities and water line replacement. The City's outstanding obligations for OWDA debt at December 31, 1998 were \$2,544,156. This requires combined annual principal and interest payments, in the approximate amount of \$346,364 through 2005 and \$259,711 through 2016. The final OWDA principal and interest payment is due on 2016.

The OWDA debt related to the sewer system improvement is required to be made from sewage system revenues after the payment of operation and maintenance expenses of the system. The loan agreement grants no security or property interest to OWDA in any property of the City, and does not pledge the general credit of the City, or create a debt subject to the direct or indirect debt limitations, or require the application of the general resources of the City for repayment.

The OWDA debt related to the water line replacement is required to be made from water revenues after the payment of operation and maintenance expense of the system. The loan agreement grants no security or property interest to OWDA in any property of the City, and does not pledge the general credit of the City, or create a debit subject to the direct or indirect debit limitations, or require the application of the general resources of the City for repayment.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 11 LONG TERM FINANCIAL OBLIGATIONS OTHER THAN BONDS AND NOTES (CONTINUED)

The City has also entered into loan agreements with the Ohio Public Works Commission (OPWC) pursuant to which OPWC provided funds to the City for water treatment and sewer collection improvements. The City's annual obligations under the two aforementioned loans are \$7,391 and \$8,806 respectively with the final payments due 2003 and 2002 respectively for these loans. The total outstanding principal balance on the OWDA debt at December 31, 1998 was \$64,081.

Note 12 DEPOSITS - Ohio law requires that deposits be placed in eligible banks or building and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate face value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation.

At year-end the carrying amount of the City's deposits, was \$6,937,967 and the bank balance was \$7,344,952. Deposits of \$200,000 were collateralized by FDIC insurance, \$6,111,917 were collateralized by a pool pursuant to Section 135.181, Revised Code, on which the City has a proportionate interest and \$1,033,035 were not collateralized.

Investments - Investment procedures are restricted by the provisions of the Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption of their respective fund balances. Interest earned is recognized when earned.

The City's investments included a \$28,583 internal investment in City of Oberlin Computer Bonds, investments of \$3,684,204 in the State Investment Pool (STAR-Ohio), investments of \$383,555 held by a trust department in the name of the City to be used for the retirement of outstanding sewer debt and \$2,476,770 of investments in federal securities. A detailed listing of these investments is disclosed below.

Risk Categorization - The Governmental Accounting Standards Board (GASB) Statement No. 3 "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements", require municipalities to categorize their deposits and investments into one of three credit risk categories. Category 1 includes investments that are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agency in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 12 DEPOSITS (CONTINUED)

Risk Categorization (Continued)

the broker or dealer, or by its trust department or agent but not in the City's name. In conformity with Statement No. 3, the City has classified its investments into risk categories shown below.

<u>Type of Investment</u>	<u>Credit Risk Category</u>	<u>Carrying Value</u>	<u>Market Value</u>
U. S. Treasury Bills	2	\$ 383,555	\$ 385,567
City of Oberlin Bonds	1	28,583	28,583
State Treasurer's Investment Pool - Star Ohio	-	3,684,204	3,684,204
Federal Home Loan Bank Consolidated Discount Note	2	486,972	499,528
Federal Home Loan Mortgage Corporation Discount Note	2	494,540	498,530
Federal Home Loan Mortgage Corporation Discount Note	2	495,520	497,244
Federal Home Loan Bank Consolidated Bonds	2	499,855	500,931
Federal Home Loan Bank Consolidated Bonds	2	499,883	501,410
TOTAL INVESTMENT AT 12/31/98		<u>\$6,573,112</u>	<u>\$6,595,997</u>

Additional Legal Requirements - Statutes further require the classification of monies held by the City into three categories. Category 1 consists of "Active" Monies, those monies required to be kept in the "cash" or "near cash" status for immediate use by the City. Deposits of \$6,437,967 fall within this classification.

Category 2 consist of "inactive" monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Inactive deposits may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories. The City had \$500,000 of inactive Certificate of Deposits at December 31, 1998 composed of a \$500,000 certificate of deposit with Provident Bank.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use, and will not be needed before the end of the current period of depositories. At December 31, 1998, interim monies of \$6,573,112 were invested by the City, including \$2,860,325 of U.S. Government Securities and \$3,684,204 in the State Treasurer's Investment Pool. An additional \$28,583 was invested in City of Oberlin Municipal Government Bonds.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 13 OPERATING TRANSFERS

The City's Combined Statement of Revenues, Expenditures, and Changes in Fund Equity for all governmental fund types and expendable trust funds and the Statement of Revenues, Expenses, and Changes in Retained Earnings for all proprietary fund types display the total of operating transfers in an out for the fiscal year ended December 31, 1998. A reconciliation of these operating transfers is detailed as follows:

<u>Fund</u>	<u>Operating Transfers-In</u>	<u>Operating Transfers-Out</u>
General Fund	<u>\$2,600,541</u>	<u>\$ 331,394</u>
Special Revenue Funds:		
C.H.I.P Grant		
Street Maintenance & Repair	160,398	55,000
State Highway		9,282
C.O.P Grant	19,647	
County Recycling	10,000	2,000
Dare Grant	<u>1,219</u>	
Total Special Revenue Funds	<u>\$ 191,264</u>	<u>\$ 66,282</u>
Debt Service Funds:		
Councilmatic Debt	\$ 62,731	
General Obligation Debt	27,917	
Special Assessment Debt	<u>50,950</u>	
Total Debt Service Funds	<u>\$ 141,598</u>	
Capital Projects		
Fire Truck Construction Fund	\$ 140,000	
Sidewalk Improvement Fund	2,758	
Computer Construction Fund	<u>2,000</u>	
Total Capital Project Funds	<u>\$ 144,758</u>	
Expendable Trust:		
Income Tax Fund	\$	\$2,143,604
Unemployment Compensation	4,940	
Police Pension	89,089	
Fire Pension	4,000	
Permanent Police Levy		<u>35,000</u>
Total Expendable Trust Funds	<u>\$ 98,029</u>	<u>\$2,178,604</u>

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 13 OPERATING TRANSFERS (CONTINUED)

Enterprise Funds:		
Equipment Replacement Fund	\$ 131,482	\$ 371,672
Solid Waste Fund	151,820	55,740
Sanitary Sewer Funds	559,837	659,652
Water Funds	60,050	161,845
Electric Funds	<u>540,514</u>	<u>793,204</u>
Total Enterprise Funds	\$1,443,703	\$2,042,113
Internal Service Fund:		
Central Garage	<u> </u>	<u>\$ 1,500</u>
Total Internal Service Fund	<u>\$ 0</u>	<u>\$ 1,500</u>
TOTAL ALL FUNDS	<u>\$4,619,893</u>	<u>\$4,619,893</u>

Note 14 RISK ASSESSMENT

The City maintains comprehensive insurance coverage with private carriers for real property, building contents and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured.

The City participates in the Buckeye Ohio Risk Management Agency (BORMA), a public entity shared risk pool consisting of several cities in northern Ohio. The City pays monthly premiums for health care coverage for its employees and for property and general liability insurance. BORMA is responsible for the management and operations of the programs. Member cities agree to share in coverage of losses and pay all premiums necessary for the specified insurance coverages provided under the respective programs. Member cities are subject to supplemental assessments of up to 25 percent of the premiums paid for health insurance during that fiscal year and in an amount equal to the annual premiums for property and liability insurance in the event of deficiencies.

Upon withdrawal from BORMA, a participant is responsible for the payment of all liabilities occurring as a result of withdrawal from the respective program.

Workers' compensation coverage is provided by the State of Ohio. The City pays the State Workers Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative cost.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 15

OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 8, Ohio Law provides that the City fund post retirement health care benefits through employer contributions to the Public Employees Retirement System (PERS) of Ohio and the Police and Firemen's Disability and Pension Fund (PFDPF) of Ohio.

PERS

The Public Employees Retirement System provides post retirement health care coverage to age and service retirees with 10 or more years of qualifying Ohio service credit and to primary survivor recipients of such retiree. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered another Post-employment 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 the statutory authority for employer contributions. The 1998 employer contribution rate was 13.55% of covered payroll; 4.2% was the portion that was used to fund health care for the year 1998.

The Ohio Revised Code provides the statutory authority requiring public employees to fund post-retirement health care through their contributions to PERS.

OPEB are financed through employer contributions and investment earnings there on. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely.

Expenditures for OPEB during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefits recipients eligible for OPEB at December 31, 1998 was 115,597.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998 employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. The health care expenses paid by the City for 1998 was \$131,960 out of total employer PERS payments of \$425,730. Under the prior method, accrued liabilities and normal cost rates were determined for retirement health care coverage.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 15

PFDPF

PFDPF operates under the authority of the Ohio Revised Code and provides post-retirement health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child up 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 Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

The Ohio Revised Code provides the statutory authority allowing the fund's Board of Trustees to provide health care coverage to all eligible individuals.

Health care funding and accounting is on a pay-as-you-go basis. Currently, 6.5% of covered payroll, the Board-defined allocation, is used to pay retiree health care expenses. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1997 are 11,239 for Police and 9,025 for Firefighters. The portion of the employers contributions that was used to pay post retirement benefits was \$39,844 for police and \$13,517 for firefighters for the year ending December 31, 1998. The fund's total health care expense for the year ending December 31, 1997 was \$76,459,832.

Note 16

PRIOR PERIOD AUDIT ADJUSTMENTS

There was a misposting of 1997 cash audit adjustments for the Capital Project Funds which resulted in an understatement of ending 12/31/97 cash and ending fund balance of \$71,562 for this fund group. This error was corrected with a prior period audit adjustment for 1998.

Note 17

YEAR 2000 ISSUE

The City of Oberlin has the following systems that require year 2000 remediation:

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 17

YEAR 2000 ISSUE (CONTINUED)

- Financial reporting, tax collection, payroll, utility billing and collection. The City has obtained written certifications from its outside hardware and software computer vendors indicating that these accounting and financial reporting systems are year 2000 compliant. These vendors tested the City's accounting systems.
- A 911 police and fire emergency reporting system. The City has completed all testing on its portion of the 911 police and fire reported system and has obtained certifications from its outside vendors that it is year 2000 compliant in these areas.
- Electric utility service to residents. The City provides electric service to its residents by purchasing electric power from AMP-Ohio. Electricity is generated by other electric utility companies and transmitted to the City of Oberlin through the City's transmission lines. The City has received certifications from its electrical supplies that these entities are year 2000 compliant.
- The City of Oberlin Municipal Court has received written certifications from its computer software companies that the billing, cash receipts and cash disbursements accounting system year 2000 compliant.
- The City has performed tests to ensure that all computer hardware and all computer software packages are year 2000 compliant.
- Water and Sewer System - The City of Oberlin's water and sewer system is manually operated and is therefore considered year 2000 compliant.
- The City of Oberlin and Oberlin Municipal Court incurred a total of \$39,138 in making the City and Court year 2000 compliant.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remedial efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the City of Oberlin (City) or the Oberlin Municipal Court (Court) is or will be year 2000 ready, that the City and Court's remedial efforts will be successful in whole or in part, or that parties with whom the City or Court does business will be year 2000 ready.

CITY OF OBERLIN - Lorain County
Notes to Financial Statements (Continued)
December 31, 1998

Note 18

SUBSEQUENT EVENT—POTENTIAL EMPLOYEE THEFT

Subsequent to the period covered by this audit report, an employee of the Oberlin Municipal Court resigned and is currently being investigated for alleged theft. Preliminary estimates indicate the alleged theft is not material to overall City of Oberlin Municipal Court operations. Final disposition of this issue is expected in the year 2000.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of City Council
City of Oberlin, Ohio

We have audited the financial statements of the City of Oberlin, Ohio, (the City) as of and for the year ended December 31, 1998, and have issued our report thereon dated November 5, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the City in a separate letter dated November 5, 1999.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions on page 43 and are identified as items 98-1 and 98-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition relating to untimely bank reconciliations to be a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated November 5, 1999.

This report is intended for the information of the City Council and management of the City. However, this report is a matter of public record and its distribution is not limited.

Watson, Rice & Co.

November 5, 1999



Certified Public Accountants
A Professional Corporation

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

Members of City Council
City of Oberlin, Ohio

We have audited the compliance of the City of Oberlin with the types of compliance requirements described in the U.S. Office of Management and Budget OMB-A-133 Compliance Supplement that are applicable to its major federal programs for the year ended December 31, 1998. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133 - "Audits of States Local Governments, and Non-profit Organizations". Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe the audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 1998.

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Members of City Council
City of Oberlin, Ohio
Page 39

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal cause of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

The report is intended for the information of the City Council and management of the City and federal awarding agencies and pass through entities. However, this report is a matter of public record and its distribution is not limited.

Watson, Rice + Co.

November 5, 1999

City of Oberlin
 Schedule of Expenditures of Federal Awards
 For the Year Ended December 31, 1998

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing & Urban Development			
Passed—Through Program From The Ohio Department of Development:			
- Community Development Block Grant Small Cities Program	14.228	Grant #A-C-96-160-1 FTI #346002073	\$103,406
- Home Investment Partner- ship Program	14.239	Grant #A-C-96-160-2 HUD #M-96-SG-39- 0922, FTI #346002073	315,651 _____
Total U.S. Department of Housing & Urban Development			<u>\$419,057</u>
U.S. Department of Justice - COPS Grant	16.710		<u>\$ 625</u>
Total U.S. Department of Justice			<u>\$ 625</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$419,682</u></u>

The Accompanying Notes are an Integral Part of This Schedule.

City of Oberlin
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 1998

Note 1 **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Oberlin and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements or amounts reported to the funding source.

City of Oberlin
Summary of Findings and Questioned Costs
For the Year Ended December 31, 1998

SECTION I - SUMMARY OF AUDITORS' FINDINGS

Financial Statements

- Type of Financial Statement Opinion - Unqualified

Internal Control Over Financial Reporting

- Material weaknesses identified? Yes
- Reportable conditions identified that are not considered to be material weaknesses? Yes
- Noncompliance material to financial statements noted? No

Federal Awards

- Material weaknesses identified? No
- Reportable conditions identified that are not considered to be material weaknesses? - None Reported.
- Type of auditor's report issued on compliance for major programs? Unqualified
- Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? No

Identification of Major Programs

- a) Community Development Block Grant - Small Cities Program - CFDA #14,228 - High Risk - Type A Program.
- b) Dollar Threshold used for Type A and Type B Programs - \$300,000.
- c) Auditee Risk Assessment - High Risk Auditee because of material compliance citations and questioned costs in 1996 financial audit.

SECTION II - FINANCIAL STATEMENT FINDINGS

The following summary of reportable conditions is required to be reported according to Government Auditing Standards.

City of Oberlin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 1998

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

SUMMARY OF REPORTABLE CONDITIONS

98-1 Unrecorded Revenues and Expenses in the General Ledger

Occasionally cash receipts which are processed through the City's various checking accounts are not posted and reflected in the general ledger. Some of these unrecorded revenues reflect material dollar items for specific funds and specific checking accounts. Until these transactions are identified in the monthly bank reconciliation process, and revenues in the general ledger are understated and the ending book cash balance is misstated. If there are delays in performing the monthly cash reconciliations, it is possible these unreported transactions may remain undetected. If these transactions are not subsequently posted to the general ledger there is a permanent reconciling item carried forward on the bank reconciliation. The process of carrying these unrecorded transactions forward for months complicates the bank reconciliation process and results in differences between revenues and ending cash balances in the general ledger and the activity and balances reflected in the bank reconciliation.

Recommendation

Unrecorded activity should be detected in a timely manner through the bank reconciliation process and when detected timely posted to the general ledger.

Management's Response

See the current year Corrective Action Plan on Page 46 of this report.

98-2 Bank Reconciliations Not Completed Timely

Some of the City's largest checking accounts were not properly reconciled in a timely manner and when the reconciliations were completed sometimes there were significant adjusting items to the City's book balances that were not reflected in the City's accounting records. Errors made by the bank are not identified quickly and corrected when bank reconciliations are not performed timely. Effective cash flow analysis, overall financial planning and the preparation of reliable internally generated financial data and financial statements is potentially compromised when bank reconciliations and any necessary adjustments to the accounting records are not properly performed in a timely manner.

Generally accepted accounting principles require that bank reconciliations be performed in a timely manner and necessary adjustments reflected in the accounting records.

City of Oberlin
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended December 31, 1998

SECTION II - FINANCIAL STATEMENT FINDINGS (CONTINUED)

SUMMARY OF REPORTABLE CONDITIONS

98-2 **Bank Reconciliations Not Completed Timely (Continued)**

Recommendation

The City should reconcile its bank accounts in a more timely manner and reflect any changes noted in this reconciliation in its accounting system.

Management's Response

See Corrective Action Plan.

SECTION III - FEDERAL AWARD FINDINGS & QUESTIONED COSTS

There were federal award findings or questioned costs for the year ended December 31, 1998.

City of
Oberlin

69 South Main Street Oberlin, Ohio 44074

The City has prepared the following Summary Schedule of Prior Audit Findings to address the reportable conditions noted in the 1997 audit report.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

97-1 Unrecorded Revenues and Expenses in the General Ledger

The City has implemented procedures to ensure that all current cash receipt and cash disbursement activity is entered into its general ledger. Prior year unrecorded activity was reflected in the beginning cash balance the City established at January 1, 1998 so that the beginning January 1, 1998 cash balances reflect all prior period activity.

Auditor Follow-up Evaluations

The City effectively reflected all unrecorded prior year activity in its general ledger when it restated the beginning cash balance at January 1, 1998 to reflect the ending audited December 31, 1997 cash balances. However, in the 1998 audit it was noted that occasionally transactions still are reflected in the bank statements but are not reflected in the general ledger. This reportable condition is not considered fully corrected by the auditor and is thus reissued.

97-2 Improperly Canceling of Year End Encumbrances

The City implemented procedures to not cancel old and inactive purchase orders until either verbal or written confirmation was obtained for the original requisitioner.

Auditor Follow-up Evaluation

In the 1998 audit the auditors did not note instances where old purchase orders were cancelled, then an invoice was received and a new purchase order had to be generated. The auditor's conclude this reportable condition was corrected in 1998.

97-3 Improper Procedures for Determining Year End Encumbrances and Accounts Payable

The City implemented new procedures for determining year-end accounts payable and outstanding encumbrances. If the invoice date was prior to year-end, then the City established an accounts payable, otherwise only an encumbrance was established.

Auditor Follow-up Evaluation

The City's procedures in 1998 for differentiating accounts payable and encumbrances were effective in properly distinguishing between accounts payable and year-end encumbrances. This reportable condition is considered corrected for 1998.

City of
Oberlin
 69 South Main Street Oberlin, Ohio 44074

CITY OF OBERLIN - CORRECTIVE ACTION PLAN
 December 31, 1998

<u>Finding Number</u>	<u>Planned Corrective Action</u>	<u>Anticipated Completion Date</u>	<u>Responsible Contact Person</u>
98-1	The error rate for receipts was only .02% of total number of cash and therefore does not occur frequently. The errors that did occur happened when the regular accounting employee for cash receipts was absent. Nevertheless, procedures have been implemented to ensure that all cash receipts are posted timely by the City for calendar year 1999, and prior to making bank deposits. These new procedures also included improving communication among employees and more employee cross training.	01/01/99	Kelly Clark, City Auditor
98-2	The City is working diligently to ensure that all 1999 bank reconciling will be reconciled properly and prepared in a timely manner. The City will use the ending audited December 1998 bank reconciliations as the starting point for 1999 bank reconciliations. All audit adjustments will be reviewed and posted to the reconciliations.	02/15/00	Kelly Clark, City Auditor



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OFFICE OF THE AUDITOR

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CITY OF OBERLIN

LORAIN 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.

By: *Susan Babbitt*
Clerk of the Bureau

Date: JAN 27 2000