

CITY OF OBERLIN, OHIO
FINANCIAL AUDIT
FOR THE YEAR ENDED DECEMBER 31, 2002



**Auditor of State
Betty Montgomery**

Members of City 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, 2002 through December 31, 2002. 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.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

September 5, 2003

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CITY OF OBERLIN – Lorain County
Notes to Financial Statements
December 31, 2002

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REPORT TO MANAGEMENT (UNDER SEPARATE COVER)

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INDEPENDENT AUDITOR'S 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, 2002, 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 auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City reflected its ownership interest and related debt in joint ventures with the American Municipal Power-Ohio Inc. in its financial statements for the first time in 2002 and restated its ending retained earnings for the Electric Fund (an enterprise fund) for the year ending December 31, 2001. See footnote 20 to the audited financial statements for additional information.

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, 2002 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 June 27, 2003 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

June 27, 2003

Watson, Rice & Co.

CITY OF OBERLIN - LORAIN COUNTY
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	EXPENDABLE NONEXPENDABLE TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	TOTAL MEMORANDUM ONLY
ASSETS										
Cash and Cash Equivalents	\$1,882,038	\$604,219	\$376,338	\$1,369,520	\$3,022,052	\$107,551	\$335,840			\$7,697,558
Restricted Cash					86,255		166,740			252,995
Restricted Investments					318,000					318,000
Investments	1,999,219	53,151		1,000,000	7,844,330					10,896,700
Investments in Joint Ventures					7,853,725					7,853,725
Receivables:										
Taxes	1,168,644	406,684	167,328	363,134	458,938					2,564,728
Accounts	89,301	365		14,427	1,480,451					1,584,544
Intergovernmental	412,314	96,897								509,211
Notes Receivable		82,575								82,575
Accrued Interest Receivable	41,972	757		11						42,740
Prepaid Expenses	45,497	3,357			40,125	1,486				90,465
Inventory at Cost					374,190	49,644				423,834
Property, Plant & Equipment					36,743,661	178,382		17,956,008		54,878,051
Less: Accumulated Depreciation					(16,569,544)	(165,927)				(16,735,471)
Other Debits:										
Amount Available for Retirement of General Long-Term Debt									376,338	376,338
Amount to be provided for Retirement of General Long-Term Obligations									2,256,020	2,256,020
TOTAL ASSETS	\$5,638,985	\$1,248,005	\$543,666	\$2,747,092	\$41,652,183	\$171,136	\$502,580	\$17,956,008	\$2,632,358	\$73,092,013

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

CITY OF OBERLIN - LORAIN COUNTY
 COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (CONTINUED)
 FOR THE YEAR ENDED DECEMBER 31, 2002

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS		
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	EXPENDABLE NONEXPENDABLE TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM OBLIGATIONS	TOTAL MEMORANDUM ONLY
LIABILITIES										
Accounts Payable	\$60,885	\$7,361		\$49,100	\$156,791	\$16,082				\$290,219
Accrued Wages and Benefits	152,049	15,207			132,999	5,928				306,183
Compensated Absences	172,571	68,175			222,275	10,758			232,649	706,428
Deposits Payable							138,579			138,579
Amounts Held as Fiduciary							179,291			179,291
O.P.W.C. Loans Payable					3,696					3,696
O.W.D.A. Loans Payable					3,943,269					3,943,269
Deferred Revenues	1,104,052	421,435	167,328	239,526	1,491,385					3,423,726
Revenue Bonds Payable					1,580,000					1,580,000
General Obligation Bonds Payable									1,472,647	1,472,647
Municipal Complex Improvement Note Payable									520,000	520,000
Bond Anticipation in Notes Payable					2,000,000					2,000,000
Real Estate Acquisition Bond Payable									407,062	407,062
Amp-Ohio-JV-2Bonds Payable					545,581					545,581
Amp-Ohio-JV-5 Bonds Payable					5,771,220					5,771,220
Unamortized Bond Discount					(1,324,171)					(1,324,171)
Retainage Payable							157,769			157,769
TOTAL LIABILITIES	\$1,489,557	\$512,178	\$167,328	\$288,626	\$14,523,045	\$32,768	\$475,639	\$0	\$2,632,358	20,121,499
FUND EQUITY										
Investment in General Fixed Assets								17,956,008		17,956,008
Retained Earnings - Unreserved					27,129,138	138,368				27,267,506
FUND BALANCE										
Reserve for Notes Receivable		82,575								82,575
Reserve for Prepaid Items	45,497	3,357								48,854
Reserve for Encumbrances	146,483	33,939		395,943						576,365
Reserve of Endowments							26,160			26,160
Undesignated and Unreserved	3,957,448	615,956	376,338	2,062,523			781			7,013,046
TOTAL FUND/ EQUITY BALANCE	4,149,428	735,827	376,338	2,458,466	27,129,138	138,368	26,941	17,956,008	0	52,970,514
TOTAL LIABILITIES & FUND EQUITY	\$5,638,985	\$1,248,005	\$543,666	\$2,747,092	\$41,652,183	\$171,136	\$502,580	\$17,956,008	\$2,632,358	\$73,092,013

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

City of Oberlin - Lorain County

Combined Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Fund Types

For the Year Ended December 31, 2002

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Totals (Memorandum Only)
<u>Revenues:</u>						
Property Taxes	\$409,277	\$196,015	\$168,990	-	-	\$774,282
Municipal Income Tax	2,554,630	515,907	-	1,289,092	-	4,359,629
Intergovernmental	1,541,722	497,427	-	-	-	2,039,149
Charges for Services	58,568	8,653	-	16,278	-	83,499
Fees, Licenses and Permits	76,362	-	-	77,441	-	153,803
Fines and Forfeitures	585,979	8,867	-	149,107	-	743,953
Net Increase in Fair Value of Investments	473,890	-	-	-	-	473,890
Interest	-	10,622	-	6,282	133	17,037
Miscellaneous	43,077	8,909	-	-	0	51,986
Total Revenues	5,743,505	1,246,400	168,990	1,538,200	133	8,697,228
<u>Expenditures:</u>						
Current:						
Security of Persons and Property	1,871,901	212,573	-	-	-	2,084,474
Public Health	104,961	-	-	-	-	104,961
Leisure Time Activities	407,109	1,061,114	-	-	-	1,468,223
Community Environment	333,123	64,027	-	-	-	397,150
Basic Utility Services	-	60,110	-	-	-	60,110
Transportation	592,497	362,628	-	-	-	955,125
General Government	1,896,953	34,090	2,963	17,009	-	1,951,015
Other	-	-	(0)	69,537	-	69,537
Capital Outlay	127,288	-	-	666,443	-	793,731
Debt Service:						
Principal Retirement	-	-	864,275	-	-	864,275
Interest and Fiscal Charges	-	-	159,770	-	-	159,770
Total Expenditures	5,333,832	1,794,542	1,027,008	752,989	-	8,908,371
Excess of Revenues Over (Under) Expenditures	409,673	(548,142)	(858,018)	785,211	133	(211,143)
<u>Other Financing Sources (Uses):</u>						
Proceeds of Notes	-	-	520,000	-	-	520,000
Proceeds from Disposition of Fixed Assets	1,100	-	-	-	-	1,100
Advances - In	253,034	570,448	12,142	91,092	373	927,089
Advances - Out	(681,860)	(199,432)	(3,021)	(36,719)	-	(921,032)
Other Financing Sources:						
Interest Income	334,534	3,688	-	-	-	338,222
Operating Transfers - In	-	200,245	478,595	98,607	-	777,447
Operating Transfers - Out	(193,486)	(78,197)	(145,156)	(413,166)	-	(830,005)
Total Other Financing Sources (Uses)	(286,678)	496,752	862,560	(260,186)	373	812,821
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	122,995	(51,390)	4,542	525,025	506	601,678
Fund Balances at Beginning of Year	4,009,069	804,581	371,796	1,933,441	275	7,119,162
Prior Period Audit Adjustments	17,364	(17,364)	-	-	-	-
Fund Balances at End of Year	\$4,149,428	\$735,827	\$376,338	\$2,458,466	\$781	\$7,720,841

The accompanying footnotes are an integral part of these 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, 2002

	GENERAL FUND			SPECIAL REVENUE		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:						
Property Taxes	\$445,445	\$409,277	(\$36,168)	\$218,656	\$196,014	(\$22,642)
Municipal Income Taxes	2,127,585	2,359,621	232,036	425,517	416,486	(9,031)
Intergovernmental Receipts	1,294,374	1,312,032	17,658	779,642	660,126	(119,516)
Charges for Services	52,600	58,568	5,968	-	-	-
Interest Earnings	300,000	354,178	54,178	4,000	5,250	1,250
Administrative Fees	-	473,890	473,890	-	-	-
Fines, Fees, Licenses, Permits	561,500	618,153	56,653	72,500	9,181	(63,319)
All Other Revenues	52,000	51,397	(603)	79,376	27,200	(52,176)
Total Revenue	4,833,504	5,637,116	803,612	1,579,691	1,314,257	(265,434)
EXPENDITURES:						
Security of Persons & Property	1,894,121	1,839,897	54,224	243,873	217,834	26,039
Public Health & Welfare	108,323	103,231	5,092	-	-	-
Leisure Time Activities	420,088	383,880	36,208	1,091,208	1,078,068	13,140
Community Environment	411,787	301,497	110,290	528,529	153,444	375,085
Transportation	651,510	575,682	75,828	392,305	210,662	181,643
General Government	2,053,282	1,883,757	169,525	64,250	31,538	32,712
Capital Outlays	189,048	120,488	68,560	25,203	-	25,203
Debt Service	-	-	-	-	-	-
Basic Utility Service	-	-	-	78,550	71,003	7,547
Total Expenditures	5,728,159	5,208,432	519,727	2,423,918	1,762,549	661,369
Excess Revenues Over (Under) Expenditures	(894,655)	428,684	1,323,339	(844,227)	(448,292)	(395,935)
OTHER FINANCING SERVICES (USES)						
Bond Proceeds	-	-	-	-	-	-
Proceeds from Sale of Fixed Assets	-	1,100	1,100	-	-	-
Operating Transfers-In	480,000	-	(480,000)	313,032	200,246	(112,786)
Operating Transfers-Out	(258,800)	(193,486)	65,314	(33,876)	(78,197)	(44,321)
Advance - In	252,000	253,034	1,034	789,800	570,448	(219,352)
Advance - Out	(752,624)	(681,860)	70,764	(291,662)	(199,432)	92,230
Total Other Financing Sources (Uses)	(279,424)	(621,212)	(341,788)	777,294	493,065	(284,229)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,174,079)	(192,528)	981,551	(66,933)	44,773	111,706
Fund Balance Beginning of Year	3,984,334	3,984,344		996,748	996,748	-
Fund Balance End of Year	\$2,810,255	\$3,791,816	\$981,551	\$929,815	\$1,041,521	\$111,706

The accompanying footnotes are an integral part of these 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, 2002

	DEBT SERVICE			CAPITAL PROJECTS		
	Budget	Actual Receipts	Variance Favorable (Unfavorable)	Budget	Actual Receipts	Variance Favorable (Unfavorable)
REVENUES:	\$177,429	\$167,732	(\$9,697)			
Property Taxes				-	-	-
Municipal Income Taxes				\$1,063,792	\$1,179,798	\$116,006
Intergovernmental Receipts				360,900	131,863	(229,037)
Charges for Services				78,000	77,441	(559)
Interest Earnings				-	2,191	2,191
Administrative Fees				-	-	-
Fines, Fees, Licenses, Permits				-	-	-
All Other Revenues				187,000	122,724	(64,276)
Total Revenue	177,429	167,732	(9,697)	1,689,692	1,514,017	(175,675)
EXPENDITURES:						
Security of Persons & Property				-	-	-
Public Health & Welfare				-	-	-
Leisure Time Activities				24,000	-	24,000
Community Environment				156,927	-	156,927
Transportation				-	-	-
General Government				-	17,389	(17,389)
Capital Outlays				2,011,522	473,666	1,537,856
Debt Service	1,171,436	1,170,467	969	-	-	-
Other Expense	2,000	1,696	304	64,341	69,537	(5,196)
Basic Utility Service				-	-	-
Total Expenditures	1,173,436	1,172,163	1,273	2,256,790	560,592	1,696,198
Excess Revenues Over (Under) Expenditures	(996,007)	(1,004,431)	(8,424)	(567,098)	953,425	1,520,523
OTHER FINANCING SERVICES (USES)						
Bond Proceeds	550,000	520,000	(30,000)			
Proceeds from Sale of Fixed Assets						
Operating Transfers-In	484,038	478,595	(5,443)	81,000	98,607	17,607
Operating Transfers-Out				(12,551)	(413,165)	(400,614)
Advance - In	5,000	12,142	7,142	180,000	91,092	(88,908)
Advance - Out	(3,021)	(3,021)	-	(86,719)	(36,719)	50,000
Total Other Financing Sources (Uses)	1,036,017	1,007,716	(28,301)	161,730	(260,185)	(421,915)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	40,010	3,285	(36,725)	(405,368)	693,240	1,098,608
Fund Balance Beginning of Year	371,796	371,796		2,907,569	2,907,569	-
Fund Balance End of Year	\$411,806	\$375,081	-\$36,725	\$2,502,201	\$3,600,809	\$853,011

The accompanying footnotes are an integral part of these 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, 2002

	EXPENDABLE TRUST		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Property Taxes			
Municipal Income Taxes			
Intergovernmental Receipts			
Charges for Services			
Interest Earnings			
Administrative Fees	\$2,500	\$2,241	(\$259)
Fines, Fees, Licenses, Permits	2,000	0	(2,000)
All Other Revenues	72,100	52,407	(19,693)
Total Revenue	76,600	54,648	(21,952)
EXPENDITURES:			
Security of Persons & Property			
Public Health & Welfare			
Leisure Time Activities			
Community Environment			
Transportation			
General Government			
Capital Outlays			
Debt Service			
Other Expense	399,159	183,043	216,116
Basic Utility Service			
Total Expenditures	399,159	183,043	216,116
Excess Revenues Over (Under) Expenditures	(322,559)	(128,395)	194,164
OTHER FINANCING SERVICES (USES)			
Bond Proceeds			
Proceeds from Sale of Fixed Assets			
Operating Transfers-In			
Operating Transfers-Out			
Advance - In	0	373	373
Advance - Out			
Total Other Financing Sources (Uses)	0	373	373
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(322,559)	(128,768)	193,791
Fund Balance Beginning of Year	1,744	1,744	
Fund Balance End of Year	(\$320,815)	(\$127,024)	\$193,791

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

City of Oberlin - Lorain County
 Combined Statement of Revenues, Expenses and Changes in Fund Equity
 All Proprietary Fund Types
 For the Year Ended December 31, 2002

	Enterprise	Internal Service	Non- Expendable Trust	Totals (Memorandum Only)
<u>Operating Revenues:</u>				
Charges for Services	\$11,251,860	\$322,137	\$0	\$11,573,997
Tap-In Fees	20,670	-	-	20,670
Personal Property and Real Estate Taxes	289,354	-	-	289,354
Other Operating	526,096	133	-	526,229
Back Up-Dedicated Capacity Revenue	-	-	-	-
Income Tax Revenues/Interest	22,224	-	-	22,224
Miscellaneous	63,462	-	-	63,462
	218,402	-	-	218,402
Total Operating Revenues	12,392,068	322,270	-	12,714,338
<u>Operating Expenses:</u>				
Operations	2,134,230	238,052	-	2,372,282
Maintenance	1,054,709	-	-	1,054,709
Distribution	783,376	-	-	783,376
Purchased Power	3,734,137	-	-	3,734,137
Amoutization Bond Discount	28,158	-	-	28,158
Other	-	-	-	-
Depreciation	1,591,144	2,317	-	1,593,461
Administration	925,350	-	-	925,350
Total Operating Expenses	10,251,104	240,369	-	10,491,473
Operating Income (Loss)	2,140,964	81,901	-	2,222,865
<u>Non-Operating Revenues (Expenses):</u>				
Advances In	-	7,805	-	7,805
Advances Out	-	(13,862)	-	(13,862)
Gain (Loss) on Disposal of Fixed Assets	-	-	-	-
Interest Income	21,544	0	460	22,004
Interest and Fiscal Charges	(486,605)	-	-	(486,605)
Other Non-Operating Revenues & Net Inc. in Fair Value of Investments	53,880	-	-	53,880
Other Non-Operating Expenses	(14,590)	-	-	(14,590)
Total Non-Operating Revenues (Expenses)	(425,771)	(6,056)	460	(431,367)
Income (Loss) Before Operating Transfers	1,715,193	75,845	460	1,791,498
Operating Transfers - In	2,535,776	-	-	2,535,776
Operating Transfers - Out	(2,478,219)	(5,000)	-	(2,483,219)
Net Income (Loss)	1,772,750	70,845	460	1,844,055
Retained Earnings at Beginning of Year	22,624,418	67,523	25,700	22,717,641
Prior Period Adjustments	2,731,970	-	-	2,731,970
Retained Earnings at End of Year	27,129,138	138,368	26,160	27,293,666
Total Fund Equity at End of Year	\$27,129,138	\$138,368	\$26,160	\$27,293,666

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

CITY OF OBERLIN - LORAIN COUNTY
 COMBINED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED DECEMBER 31, 2002

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	TOTAL MEMORANDUM ONLY
	ENTERPRISE	INTERNAL SERVICE FUND	NON EXPENDABLE TRUST	
Operating Activities:				
Charges for Services	\$11,064,848	\$322,270		\$11,387,118
Real Estate, Personal Property & Income Taxes	556,439			556,439
Operating Expenses	(8,978,099)	(230,777)		(9,208,876)
Other Operating Revenues	85,686			85,686
Other Operating Receipts (Payments)	(89,387)	977		(88,410)
Total Cash Provided From Operations	2,639,487	92,470	0	2,731,957
Non-Capital Financing Activities:				
Operating Transfers In	2,535,776			2,535,776
Operating Transfers Out	(2,478,219)	(5,000)		(2,483,219)
Advances In		7,805		7,805
Advances Out		(13,862)		(13,862)
				0
Total Cash Provided(Used) From Non-Capital Financing Activities	57,557	(11,057)	0	46,500
Investing Activities:				
Purchase of STAR-OHIO Investments	(5,527,230)			(5,527,230)
Interest Income in Increases on Amp-Ohio Investments	256,186		460	256,646
Total Cash Provided (Used) by Investing Activities	(5,271,044)	0	460	(5,270,584)
Capital and Related Financing Activities:				
Purchase of Fixed Assets	(1,018,941)			(1,018,941)
Retirement of Bond & Note and Loan Principal	(3,052,431)			(3,052,431)
Interest Expense on Bonds & Loans Payable	(448,034)			(448,034)
OWDA Receipts for Capital Projects	274,655			274,655
Proceeds from Sale of Notes - Bond Anticipation Note	2,000,000			2,000,000
Total Cash Provided From Financing Activities	(2,244,751)	0	0	(2,244,751)
Net Increase (Decrease) in Cash & Cash Equivalents	(4,804,345)	81,413	460	(4,722,472)
Cash & Cash Equivalents - Beginning of Year	8,245,058	26,137	25,700	8,296,895
Cash Balance - December 31, 2002	\$3,440,713	\$107,550	\$26,160	\$3,574,423
Reconciliation of Operating Income(Loss) to Net Cash Provided(Used) by Operating Activities:				
Operating Income(Loss)	\$2,140,964	\$81,902		\$2,222,866
Adjustments to Reconcile Changes in Retained Earnings to Net Cash Provided from Operations:				
Depreciation Expense	1,591,144	2,317		1,593,461
Decrease in Due From Other Funds	20,422	977		21,399
(Increase) Decrease in Prepaid Expenses	2,626	(171)		2,455
(Increase) Decrease in Accounts Receivable	(413,953)			(413,953)
(Decrease) in Accounts Payable - Operations Portion	(673,103)	(2,870)		(675,973)
Increase in Accrued Wages	46,061	1,209		47,270
Increase in Compensated Absences	15,028	3,171		18,199
(Decrease) in Due to Other Funds	(109,809)			(109,809)
(Decrease) in Deferred Revenue	(53,189)			(53,189)
Decrease in Inventory	73,296	5,935		79,231
Total Adjustments	498,523	10,568	0	509,091
Net Cash Provided by Operations	\$2,639,487	\$92,470	\$0	\$2,731,957

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

City of Oberlin-Lorain County
Notes to Financial Statements
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

The City of Oberlin (City) is a body politic and corporation 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.

The City has been assigned by the County Auditor to collect voter approved real estate and personal property taxes on behalf of the Oberlin Public Library (Library). The City makes annual principal and interest expense for the Library to retire its outstanding debt.

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 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.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basis of Accounting (Continued)

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. The available period for the City is sixty (60) days subsequent to fiscal year end.

Under GASB #33, the timing for the recognition of revenues for non-exchange transactions is defined as follows:

-Derived Tax Revenue – Revenues should be recognized when the underlying exchange transaction occurs with earlier receipts recorded or deferred revenues. The City's derived taxes consist primarily of municipal income taxes and motor fuel taxes.

-Imposed Non-Exchange Transactions – Revenue should be recognized when use of the resources is required or first permitted by time requirements. The City's primary revenues under this category are real and personal property taxes and fines and penalties.

-Government Mandated and Voluntary Non-Exchange Transactions – Revenues should be recognized when all eligibility requirements have been met with advance receipts reported as deferred revenues. The City's revenues in this category consist of grants and donations.

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 account 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.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- Street Construction Maintenance and Repair
- State Highway Improvements
- Donation Fund-Recreation Complex
- County Recycling
- State Recycling
- CDBG Business-RLF
- Community Housing Improvement Program
- D.A.R.E. Grant
- Ohio Department of Natural Resources Grant
- C.O.P. Grant
- CDBG-RLF
- Fire Training Fund
- Home-RLF
- CDBG Formula Allocation
- Roadway Development Grant
- CDBG-State Economic Grant
- Oberlin Youth Council
- Payroll Imprest
- Unemployment Compensation
- D.A.R.E. Trust
- Law Enforcement Trust
- Martin Luther King Park
- Cemetery Tree Trust
- Vee Long Nursery
- Permanent Policy Pension Levy
- Police Pension Levy
- Fire Pension Levy
- Indigent Alcohol Treatment
- Holiday Beautification
- War Memorial
- Vacation/Sick Leave
- After School Program
- Recreation Complex
- Depot Park Donations
- Utility C.A.R.I.N.G. Donations

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

- Library Fund
- General Obligation Debt
- Councilmatic Debt
- Special Assessment Debt

Capital Projects Funds

Capital project 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). The City's capital project funds consist of the following:

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

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:

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds (Continued)

- 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
- Solid Waste Replacement/Reserve
- Wastewater Treatment Tax Fund
- Joint Facilities Fund

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.

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:

- Julia Severance Endowment - Nonexpendable Trust
- Charles M. Hall Endowment - Nonexpendable Trust
- Gager - Wilmot Endowment - Nonexpendable Trust
- Street Deposits - Expendable Trust
- Utility Deposits - Expendable Trust
- Unclaimed Fund - Expendable Trust
- Cable TV Deposits - Expendable Trust
- Cable TV Complete/Performance - Expendable Trust

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Oberlin Municipal Court
State OBBS Fund
Construction Escrow

Account Groups

General Fixed Assets Account Group

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

General Long-Term Obligations Account Group

Accounts for all un-matured long-term obligations of the City, except those 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

The City uses an internal investment pool for most of its investments. Each fund's principal investment amount is shown as an investment in that fund. All internal investment pool investments are reported in the financial statements at amortized cost because the investments had a remaining maturity value of one year or less at the time of purchase by the City and therefore qualified as market investments.

The City of Oberlin also invested funds in the State Treasury Asset Reserve of Ohio (STAROhio) during 2002. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price, which is the price the investment could be sold for on December 31, 2002.

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 is expensed in the proprietary funds when used.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. The City does not record depreciation expense on its General Fixed Assets Account Group.

Fixed assets including water and sewer infrastructure improvements 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
Computer Equipment	3 years
Electric Generators	30 years

H. Grants and Other Intergovernmental Revenues

In governmental funds, federal and state grants awarded on a non-reimbursement basis and recorded as intergovernmental receivables and revenues when measurable and available. Federal reimbursable grants are recorded as intergovernmental receivables and revenues in the period when all applicable eligibility requirements have been met and the resources are available.

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, 2002, interfund amounts due from or due to have been recorded.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

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 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. Restricted Cash and Restricted Investments
The restricted cash of \$86,255 and restricted investments of \$318,000 (U.S. Treasury Bill) reported in the enterprise fund relates to the City's sewer fund. These funds are held as collateral by the City's trustee to ensure the retirement of the 1993 Mortgage Revenue bond debt pertaining to the sewer fund.

The restricted cash of \$166,740 reported in the City's agency fund relates to funds held by the Oberlin Municipal Court that are to be distributed to other governmental entities, bondholders and other parties.

L. 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 is 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.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 2 LEGAL COMPLIANCE – BUDGETS (continued)

Tax Budget (continued)

The City maintains its legal level of budgetary control at the fund level except for the General Fund where budgetary control is exercised at the expense type category level (e.g. – Security of Persons and Property, General Government Expense, etc.). The City Auditor is authorized to transfer budget amounts within each fund (except for the General Fund) so long as the total amount appropriated by Council for each individual fund is not exceeded. For the General Fund, transfers can be authorized between expense categories but Council approval for a budget appropriation is required for movement of expenses between expense categories. The City does not budget for its agency funds.

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 fund 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.

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 or 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 re-appropriated.

Budget Basis of Accounting

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

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 2 LEGAL COMPLIANCE – BUDGETS (continued)

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).

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 following table summarizes the adjustments necessary to reconcile the budgetary statements to the GAAP basis statements on a fund type basis:

Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – All Governmental Fund Types:

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Expendable Trust Funds
Budget Basis Surplus (Deficit)	\$ (192,528)	\$ (85,227)	\$ 3,285	\$ 694,992	\$ (128,022)
Revenue Accrual Adjustments	440,923	830	1,259	23,307	(54,515)
Expenditure Accrual Adjustments	(125,400)	33,007	(1)	(193,274)	183,043
GAAP basis as reported	<u>122,995</u>	<u>(51,390)</u>	<u>4,542</u>	<u>525,025</u>	<u>506</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

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 2000. The assessed values per category applicable to 2002 and 2001 collections are as follows:

<u>Real Property</u>	<u>Collection Year 2002</u> <u>Tax Valuation Year 2001</u>
Residential/Agriculture	\$63,368,570
Commercial/Industrial	<u>26,410,270</u>
Sub-Total Real Property	<u>\$89,778,840</u>
<u>Tangible Personal Property</u>	
General	\$11,770,440
Public Utilities	<u>1,267,360</u>
Sub-Total Tangible Real Property	<u>\$13,037,800</u>
Total Valuation Real Property and Tangible Personal Property	<u>\$102,816,640</u>

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.

Real property taxes become a lien on all non-exempt real property located in the county on January 1. Real property taxes are paid annually or semi-annually. If paid annually, payment is due December 31, if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payments dates to be established.

The full rate applied to real property for the fiscal year ended June 30, 2002, was \$11.13 per \$1,000 per assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was 6.673788 per \$1,000 of assessed valuation for real property classified residential/agriculture and 7.153140 per \$1,000 assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended June 30, 2002 was 11.15 per \$1,000 of assessed valuation.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 3 PROPERTY TAX (continued)

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 it's portion of the taxes collected.

A tax receivable totaling \$2,095,077 and corresponding deferred tax revenue have been recorded in the various funds of the City, including \$107,422 for the portion of the taxes levied prior to December 31, 2002 which are delinquent and \$1,987,655 which was levied on January 1, 2003 on the assessed value of property of October 1, 2002. The 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 1.9% of earnings for 2002. Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly as required. Corporations and other individuals are required to estimate these taxes quarterly and file a declaration annually.

Note 5 CHANGES IN GENERAL FIXED ASSET GROUP OF ACCOUNTS

<u>Balance</u> <u>01-01-02</u>	<u>2002</u> <u>Additions</u>	<u>2002</u> <u>Disposals</u>	<u>Balance</u>
<u>\$17,178,163</u>	<u>\$,749,845</u>	<u>\$(17,000)</u>	<u>\$17,956,008</u>

Note 6 FIXED ASSETS & RELATED DEPRECIATION – PROPRIETARY FUNDS

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)
For Year Ending December 31, 2002

Note 6 FIXED ASSETS & RELATED DEPRECIATION – PROPRIETARY FUNDS (continued)

<u>Asset Class</u>	<u>Balance</u> 12-31-02	<u>Depreciation</u> <u>Method</u>	<u>Useful Life</u>
<u>Enterprise Funds</u>			
Land	\$826,711	N/A	N/A
Buildings	3,883,673	Straight Line	20 to 45 yrs.
Furniture & Equipment	3,627,515	Straight Line	5 to 7 yrs.
Vehicles	1,711,168	Straight Line	7 yrs.
System Improvement	18,683,872	Straight Line	20 yrs.
Computer Equipment	89,951	Straight Line	3 yrs.
Electric Generators	4,129,768	Straight Line	30 yrs.
Construction in Progress	<u>3,790,768</u>	Not depreciated until completed	
Total	\$36,743,661		
Less Accumulated Depreciation	<u>(16,569,544)</u>		
Net Fixed Assets-Enterprise Fund	<u>\$20,174,177</u>		
<u>Internal Service Funds</u>			
Buildings	\$ 51,100	Straight Line	25 yrs.
Furniture & Equipment	<u>127,282</u>	Straight Line	7 yrs.
Sub-Total	<u>\$ 178,382</u>		
Less Accumulated Depreciation	<u>\$ (165,927)</u>		
Net Fixed Assets – Internal Service Funds	<u>\$ 12,455</u>		

Note 7 PENSION PLAN OBLIGATIONS

The City of Oberlin contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost sharing multiple employee defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislative and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 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, 2002, 2001 and 2000 were \$206,156, \$193,311, and \$182,336, respectively, equal to the required contributions for each year.

OP&F 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

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 7 PENSION PLAN OBLIGATIONS (continued)

such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds on OP&F 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 OP&F'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. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.50% and 7.75% of covered payroll in 2001 and 2002, respectively. 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, 2001, the date of the last actuarial valuation available is 13,174 for Police and 10,239 for Firefighters. The City of Oberlin contributes a portion of employer for Post-employment Benefits other than pension benefits. The portion of employer contributions that were used to pay Post-employment benefits for 2002 was \$57,671 for Police and \$19,667 for Firefighters. OP & F's total health care expenses for the year ended December 31, 2001, the date of the last actuarial valuation available, was \$122,298,771, which was net of member contributions of \$6,874,699.

The City of Oberlin contributes to the Public Employees Retirement System of Ohio (PERS), which is a cost-sharing multiple-employer defined benefit pension plan. PERS 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 was 8.5% for 2002 and the employer contribution rate was 13.55% of covered payroll. The City of Oberlin's employer contribution for years ending December 31, 2002, 2001, and 2000 were \$509,052, \$417,688, and \$369,470, 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.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 8 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, 2002, along with any salary-related payments associated with the payment of compensated absences. The City has accrued their compensated absences liability under the vesting method. Under this method, the City accrues a liability for vacation and sick leave for those employees who are currently eligible to receive termination benefits as well as other employees who are expected to be paid upon termination or retirement. For governmental and similar trust funds, the City recognized the current portion of this liability at December 31, 2002, 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, 2002.

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 balance.

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, 2002, the total estimated liability for all unpaid compensated absences was \$649,835 for all funds and account groups.

Note 9 DEBT OBLIGATIONS

Debt outstanding at December 31, 2002 consists of the following:

General Obligation -Library Bonds – General		
Long-Term Debt Group of Accounts		
Principal Outstanding		\$ 790,000
Interest Rate		6.875%
General Obligation - Downtown Improvement Bonds		
General Long Term Debt Group of Accounts		
Principal Outstanding		\$ 41,919
Interest Rate		8.750%

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 9

DEBT OBLIGATIONS (continued)

General Obligation – Real Estate Acquisition Bonds Recreation and Facility-General Long Term Debt- Group of Accounts		
Principal Outstanding		\$ 407,062
Interest Rate		5.5%
Mortgage Revenue Bonds – Enterprise Fund		
Principal Outstanding		\$1,580,000
Interest Rate		4.20% to 5.3%
Special Assessment Bonds - General Long- Term Debt Group of Accounts		
Principal Outstanding		\$ 48,081
Interest Rate		8.750%
General Obligation Notes – In Anticipation of Bonds For Courts and Municipal Complex Improvements- General Long Term Debt Group of Accounts		
Principal Outstanding		\$520,000
Interest Rate		2.10%
Recreational Facilities Improvement Bonds- Construction of Ball Fields - General Long Term Debt Group of Accounts		
Principal Outstanding		\$592,647
Interest Rate		6.448%
Bond Anticipation Note – Enterprise Fund		
Principal Outstanding		\$2,000,000
Interest Rate		1.6%

Outstanding general obligation bonds consist of downtown improvements, computer construction, library improvements, city hall improvements and other construction needs. 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.

Real estate acquisitions bonds are direct obligations of the City and are agreements between individuals and/or business, which sold real estate to the City of Oberlin for the construction of a joint facilities building and a future recreation center.

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.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 9 DEBT OBLIGATIONS (continued)

The annual requirements to amortize all bonded debt outstanding as of December 31, 2002 including interest payments of \$908,160 are as follows:

Year Ending December 31	General Obligation Bonds	Mortgage Revenue Bonds	Special Assessment Bonds	Real Estate Acquisition Bonds	Notes in Anticipation of Bonds
2003	\$259,153	\$314,265	\$20,170	\$55,844	\$2,560,920
2004	256,740	313,220	18,772	53,978	
2005	258,951	311,460	17,374	52,112	
2006	241,512	313,965		50,247	
2007	243,949	310,195		48,381	
2008	245,700	310,635		46,515	
2009	246,761			44,650	
2010	97,137			195,263	
Total	<u>\$1,849,903</u>	<u>\$1,873,740</u>	<u>\$ 56,316</u>	<u>\$ 546,990</u>	<u>\$2,560,920</u>

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

<u>General Obligation Bonds</u>	Balance 01-01-02	2002 Liquidation	2002 New Issues	Balance 12-31-02
Recreation Facility	\$ 648,000	(\$55,353)	-0-	\$ 592,647
Library	875,000	(85,000)	-0-	790,000
Downtown Improvement	56,019	(14,100)	-0-	41,919
Sub-Total	<u>\$1,579,019</u>	<u>(154,453)</u>	<u>-0-</u>	<u>1,424,566</u>
<u>Special Assessment</u>				
Downtown Improvement	\$ 63,981	(15,900)	-0-	48,081
Subtotal General Obligation Debt	1,643,000	(170,353)	-0-	1,472,647
<u>Real Estate Acquisition Bonds</u>				
Recreation	440,984	(33,922)	-0-	407,062
Total General Long-Term Debt Group of Accounts	<u>\$2,083,984</u>	<u>\$204,275</u>	<u>-0-</u>	<u>\$1,879,709</u>
<u>Notes Issued in Anticipation of Bonds</u>	Balances 1-1-02	2002 Liquidation	2002 New Issues	Balance 12-31-02
Count Complex Improvement Notes	\$ 660,000	\$(660,000)	\$520,000	\$520,000
Subtotal Notes in Anticipation of Bonds	<u>660,000</u>	<u>(660,000)</u>	<u>520,000</u>	<u>520,000</u>
Total General Long Term Debt Group of Accounts	<u>\$2,743,984</u>	<u>\$(864,275)</u>	<u>\$520,000</u>	<u>\$2,399,709</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 9 DEBT OBLIGATIONS (continued)

The following is a schedule of changes in enterprise bond debt:

	<u>Balance</u> <u>01/01/02</u>	<u>2002</u> <u>Liquidation</u>	<u>2002</u> <u>New Issues</u>	<u>Balance</u> <u>12/31/02</u>
<u>Mortgage Revenue Bonds</u>				
1993 Issue – Sewer	\$ 1,800,000	\$ (220,000)	-0-	\$1,580,000
<u>Bond Anticipation Note</u>				
AMP-Ohio - Electric	<u>2,500,000</u>	<u>(500,000)</u>	<u>-0-</u>	<u>2,000,000</u>
Total Enterprise Bond Debt	<u>\$ 4,300,000</u>	<u>\$(720,000)</u>	<u>-0-</u>	<u>\$ 3,580,000</u>

Note 10 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 principal obligations for active OWDA debt at December 31, 2002 were \$1,906,335. This debt requires combined annual principal and interest payments, in the approximate amount of \$346,364 through 2005 and \$173,058 through 2016. The final OWDA principal and interest payments are 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 limitation, 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 debt limitation, or require the application of the general resources of the City for repayment.

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 active OPWC loan was \$3,696 at December 31, 2002. This loan will be fully retired in 2003.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 10 LONG TERM FINANCIAL OBLIGATIONS OTHER THAN BONDS AND NOTES
(continued)

In May 2000, the City entered into an agreement with the Ohio Water Development Authority (OWDA) to upgrade its wastewater treatment operations within the City. The City was authorized to draw down \$2,247,159 from OWDA for this project. This project is estimated to be completed in 2002 at which time the City will be required to begin repaying this loan to OWDA per an agreed upon amortization schedule. As of December 31, 2002, the City has received and expended \$2,128,337 from OWDA for the upgrade of its Wastewater Treatment Plant.

The City is a participant, with thirty-six other subdivisions within the State of Ohio, in Ohio Municipal Electric Generation Joint Venture 2 (JV2), a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis. In 2001, AMP-Ohio issued bonds, in the amount of \$50,260,000, to acquire fixed assets for JV2. Under a financing agreement between the participants of JV2 and AMP-Ohio, the participants have agreed to pay the debt service requirements of the bonds. Payments are to be made solely from resources of the City's Electric enterprise fund. At December 31, 2002, the City's outstanding debt requirement under the agreement was \$545,581 and is reflected as a liability in the City's electric enterprise fund.

The City is also a participant in the Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5), which has issued 1993 Certificates of Beneficial Interest and 2001 Certificates of Beneficial Interest. The debt service payments are obligations of the joint venture's participants, payable from each participant's municipal electric utility systems, subject only to the prior payment of the operation and maintenance expenses. In case of default by a participant, the remaining participants become liable for that participant's debt service payments. No defaults have occurred to date. For accounting purposes, the obligation for repayment of the Certificates is reflected in the financial statement of the joint venture.

The debt associated with the 1993 Ohio Municipal Electric Generation Agency Joint Venture 5 (JV5) is 3.02 percent of \$138,420,000 or approximately \$4,076,245. Principal payments are made on February 15 of each year. The principal retirements and the portion that will be paid by the City are as follows:

<u>Year</u>	<u>Certificates of Beneficial Interest</u>	<u>City of Oberlin Percentage</u>
2003	\$ 3,445,000	\$ 104,039
2004	3,620,000	109,324
2005	3,800,000	114,760
2006	4,000,000	120,800
2007-2024	<u>123,555,000</u>	<u>3,627,322</u>
Total	<u>\$ 138,420,000</u>	<u>\$ 4,076,245</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 10 LONG TERM FINANCIAL OBLIGATIONS OTHER THAN BONDS AND NOTES
(continued)

The total debt associated with the JV5 2001 Certificates of Beneficial Interest was issued for \$13,899,891 on July 26, 2001. The City's share of this debt at December 31, 2003 was \$1,694,975. The 2001 certificates are non-callable and accrete in value to \$56,125,000 until maturity in years 2025-2030. As of December 31, 2002 the City of Oberlin's accreted value share was \$479,253.

Note 11 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 \$7,950,553 and the bank balance was \$8,270,861. Deposits of \$300,000 were collateralized by FDIC insurance, \$3,156,985 was collateralized by a pool pursuant to Section 135.181, Revised Code, on which the City has a proportionate interest and \$4,813,876 was 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, exclusive of investments in Joint Ventures included \$8,897,481 in the State Investment Pool (STAR-Ohio), \$1,999,219 in Federal National Mortgage Association Notes and investments of \$318,000 were held by a trust department in the name of the City to be used for the retirement of outstanding sewer debt.

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 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>Fair Value</u>
U. S. Treasury Bills	2	\$ 318,000	\$ 318,000
State Treasurer's Investment Pool – Star Ohio		8,897,481	8,897,481
Federal National Mortgage Association Notes	2	<u>1,999,219</u>	<u>1,999,219</u>
TOTAL INVESTMENTS AT 12/31/02		<u>\$11,214,700</u>	<u>\$11,214,700</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 11 DEPOSITS (continued)

The amounts invested with Star Ohio is not classified by risk category due to these investments not being evidenced by securities that exist in physical or book entry form as defined by GASB No. 3.

Additional Legal Requirements - Statues 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 \$3,240,553 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 and the Oberlin Municipal Court had a combined \$4,710,000 of inactive Certificate of Deposits at December 31, 2002.

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, 2002, interim monies of \$11,214,700 were invested by the City, including \$2,317,219 of U.S. Government Securities and \$8,897,481 in the State Treasurer's Investment Pool.

Note 12 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, 2002. A reconciliation of these operating transfers is detailed as follows:

Fund	Operating Transfers - In	Operating Transfers - Out
General Fund	\$ 193,486	\$ 193,486
Special Revenue Funds:		
Street Maintenance & Repair	130,000	30,000
State Highway Maintenance	0	2,500
County Recycling	0	39,556
Dare Grant	1,558	0
Police Pension	1,860	0
Fire Pension	28,828	0

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 12 OPERATING TRANSFERS (continued)

Fund	Operating Transfers - In	Operating Transfers - Out
Special Revenue Funds:		
Vacation/Sick Leave	20,000	0
ODNR Grant	0	4,281
COP Grant		1,317
Unemployment Comp.	18,000	0
Permanent Policy Levy	0	543
Total Special Revenue Funds	<u>200,246</u>	<u>78,197</u>
Debt Service Funds:		
General Obligation Debt	478,595	
Library Fund		145,156
Total Debt Service Funds	<u>478,595</u>	<u>145,156</u>
Capital Project Funds:		
Income Tax Fund	0	273,165
Subdivision Review Fund	0	100,000
Sidewalk Improvement Fund	39,726	0
Equipment Replacement	58,881	40,000
Total Capital Projects Funds	<u>98,607</u>	<u>413,165</u>
Internal Services Funds:		
Central Garage	0	5,000
Enterprise Funds:		
Refuse	205,556	130,000
Sanitary Sewer Fund	713,552	715,552
Water Fund	300,000	301,000
Electric Fund	1,316,667	1,331,667
Total Enterprise Funds	<u>2,535,775</u>	<u>2,478,219</u>
TOTAL ALL FUNDS	<u>\$3,313,223</u>	<u>\$3,313,223</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 13 RISK MANAGEMENT

The City is exposed to various risks of loss related to property and casualty, general liability, workers' compensation and employee health and dental benefits.

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.

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 to BORMA and to Public Entities Pool (PEP) for property and general liability insurance. BORMA is responsible for the management and operations of the health insurance programs. Member cities agree to share in coverage of losses and pay all premiums necessary for the specified health insurance coverage. Member cities are subject to supplemental assessments.

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.

The City has not incurred any settlements in excess of its insurance coverage for any of the prior three calendar years. The City's insurance coverage for the year ending December 31, 2002 was not reduced from its coverage for the year ended December 31, 2001.

Note 14 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 Ohio 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. Health care coverage for disability recipients and primary survivor 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 OPERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides the statutory authority for employer contributions. The 2002 employer contribution rate was 13.55% of covered payroll; 5% was the portion that was used to fund health care for the year 2002.

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

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 14 OTHER POST EMPLOYMENT BENEFITS (continued)

The Summary of Assumptions is as follows:

Actuarial Review. The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2001.

Funding Method. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of unfunded actuarial accrued liability.

Assets Valuation Method. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investments assets.

Investment Return. The investment assumption rate for 2001 was 8.00%.

Active Employee Total Payroll. An annual increase of 4.00% compounded annually, is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4.00% base increase, were assumed to range from 0.50% to 6.30%.

Healthcare. Health care costs were assumed to increase 4.00% annually.

The OPEBs are advanced funded on an actuarially determined basis.

The number of active participants was 402,041.

The employee contribution rate is the actuarially determined contribution requirements for PERS. The City's contributions that were used to fund postemployment benefits for the year 2002 were \$187,840 out of total City PERS payments of \$502,509. At December 31, 2001, \$11.6 million represents the actuarial value of the Retirement's System's net assets available for OPEB.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$16.4 billion and \$4.8 billion respectively.

In December 2001, the Board adopted the Health Care "Choices" plan in its continuing effort to respond to the rise in the cost of Health Care. The Choices Plan will be offered to all persons newly hired under OPERS after January 1, 2003, with no prior service credit accumulated toward health care coverage. Choices, as the name suggests, will incorporate a cafeteria approach, offering a more broad range of health care options. The Plan uses a graded scale from ten to thirty years to calculate a monthly health care benefit. This is in contrast to the ten-year "cliff" eligibility standard for the present Plan.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 14 OTHER POST EMPLOYMENT BENEFITS (continued)

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

Note 15 DEFERRED REVENUE AND BACK-UP DEDICATED CAPACITY REVENUE

The City of Oberlin entered into an agreement with American Municipal Power –Ohio Inc- (AMP- Ohio) in 1993 to assist AMP-Ohio in construction of a Hydro Electric Plant called the Bellview Hydroelectric Project. In return for AMP-Ohio defeasing the City’s electric fund mortgage revenue bonds and the receipt of \$800,000 cash from AMP-Ohio, the City was required to provide back-up dedicated power to AMP-Ohio for a period of 13 years from June 1996 through May 2009.

The defeasance of the City’s debt plus the \$800,000 cash payment from AMP-Ohio resulted in a \$3,045,707 deferred revenue. Reductions in the deferred revenue were \$227,496 and \$243,815 respectively for the year’s ending December 31, 2002 and December 31, 2001. Future back up dedicated capacity contributions from the City to AMP-Ohio are authorized by an agreement between the parties.

Note 16 CONTINGENT LIABILITIES

The City is a defendant in several lawsuits pertaining to matters, which are incidental to performing routine governmental functions. City officials, after consultation with the City’s Solicitor are of the opinion that potential uninsured claims against the City would not have a material adverse effect on the financial position of the City.

Note 17 ADVANCES IN AND ADVANCES OUT

The City made advances to several funds during the calendar year to alleviate cash flow issues cash balances that existed prior to the advance being made. All outstanding 2001 advances out were repaid in calendar year 2002.

The summary activity for advances in and advances out for the year ending December 31, 2002 is as follows:

Fund	Advances In	Advances Out
General Fund	<u>\$253,034</u>	<u>\$681,860</u>
Special Revenue Funds:		
CDBG-State Economic		
Development Fund	0	129,262
Roadway Development Grant	0	62,400
Recreation Complex Fund	<u>570,448</u>	<u>7,770</u>
Total Special Revenue Funds	<u>570,448</u>	<u>199,432</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 17 ADVANCES IN AND ADVANCES OUT (continued)

Debt Service & Library Funds:	<u>12,142</u>	<u>3,021</u>
Capital Projects Funds:		
Subdivision Review Fund	78,762	0
Sidewalk Improvement Fund	<u>12,330</u>	<u>36,719</u>
Total Capital Projects Funds	<u>91,092</u>	<u>36,719</u>
Agency Fund:		
State OBBS Fund	<u>373</u>	<u>0</u>
Internal Service Funds:		
Central Garage	0	7,335
Office Inventory Fund	1,515	3,967
General Plant Supplies	<u>6,290</u>	<u>2,560</u>
Total Internal Service Funds	<u>7,805</u>	<u>13,862</u>
TOTAL ALL FUNDS	<u>\$934,894</u>	<u>\$934,894</u>

Note 18 SEGMENT INFORMATION FOR ENTERPRISE FUNDS
Segment information for the Enterprise funds is summarized on page 35(a).

Note 19 PARTICIPATION IN JOINT VENTURES
The City of Oberlin electric department participates in the following joint ventures with American Municipal Power-Ohio, Inc.

OMEGA JV-1:

The Ohio Municipal Electric Generation Agency Joint Venture 1 (OMEGA JV-1) was organized by 21 subdivisions of the State of Ohio on April 1, 1992, pursuant to a Joint Venture Agreement under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose is to provide a source of supplemental capacity to the participants. The participants are members of the American Municipal Power-Ohio, Inc. (AMP-Ohio) Northeast Area Service Group. The participants are charged fees for the costs required to administer the joint venture and maintain the jointly owned electric plant. OMEGA JV-1 purchased its electric generating facilities, known as the Engle Units, from AMP-Ohio in September 1992. These facilities are located in Cuyahoga Falls, Ohio.

Participants' equity consists of contributed capital of the participants and accumulated net margins. Should OMEGA JV-1 cease business, these amounts, if available, will be returned to the participants.

City of Oberlin - Lorain County
Segment Information - Enterprise Funds
For the Year Ended December 31, 2002

	Electric	Sewer	Water	Solid Waste	Cable Programming	Total Enterprise Funds
OPERATING STATEMENT:						
Operating Revenues	\$8,445,435	\$1,966,556	\$1,389,140	\$582,127	\$8,810	\$12,392,068
OPERATING EXPENSES:						
Operations	896,196	397,431	483,192	357,411		2,134,230
Maintenance	892,370		162,339			1,054,709
Purchased Power	3,734,137					3,734,137
Distribution	281,640	193,962	307,774			783,376
Administration	704,783	106,379	100,448	13,740		925,350
Depreciation & Amortization	755,821	497,106	298,352	64,572	3,451	1,619,302
Total Operating Expenses	7,264,947	1,194,878	1,352,105	435,723	3,451	10,251,104
OPERATING INCOME (LOSS)	1,180,488	771,678	37,035	146,404	5,359	2,140,964
Non-Operating Revenue (Expenses)	(251,961)	(134,901)	(38,909)			(425,771)
Net Transfers	(15,000)	(2,000)	(1,000)	75,557		57,557
NET INCOME (LOSS)	913,527	634,777	(2,874)	221,961	5,359	1,772,750
OTHER INFORMATION:						
Net Working Capital	4,676,792	2,822,868	1,489,929	419,584	27,132	9,436,305
Cash & Investments -Excluding Joint Ventures and Restricted Cash/Investments	5,855,933	2,975,558	1,564,809	427,973	42,109	10,866,382
Net Fixed Assets	9,175,988	7,437,182	3,186,095	352,611	22,241	20,174,117
Total Assets	24,390,839	11,144,820	4,925,752	1,126,422	64,350	41,652,183
Bonds&Notes Payable, OWPC, OWDA - Net of Unamortized Bond Discount	6,992,630	5,131,990	394,975			12,519,595
Total Equity	<u>\$16,044,609</u>	<u>\$5,834,986</u>	<u>\$4,427,975</u>	<u>\$772,195</u>	<u>\$49,373</u>	<u>\$27,129,138</u>

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 19 PARTICIPATION IN JOINT VENTURES (continued)

All property constituting OMEGA JV-1 is owned by the participants as tenants in common in undivided shares, each share being equal to that participant's percentage ownership interest. Oberlin's share is 5.5 percent.

OMEGA JV-2

Ohio Municipal Electric Generation Agency Joint Venture 2 (OMEGA JV-2) was organized by 36 subdivisions of the State of Ohio on November 21, 2000, pursuant to a Joint Ventures Agreement under the Ohio Constitution and Section 715.02 of the Ohio Revised Code, and commenced operations on or about December 1, 2000. Its purpose is to provide backup and peaking capacity to the participants. The participants are members of American Municipal Power-Ohio (AMP-Ohio). On December 27, 2001, OMEGA JV-2 purchased 138.650 MW of electric plant generating units from AMP-Ohio. The project is referred to as "distributed generation". The project is referred to as because the units are sited near the participants municipal electric systems where it is anticipated they will serve. The project consists of two 32 MW used gas-fired turbines, one 11 MW used gas-fired turbine and 341.825 MW new and one 1.6 MW used oil-fired diesel generator projects units.

Participants' equity consists of contributed capital of the participants and accumulated net margins. Should OMEGA JV-2 cease business, these amounts, if available, will be returned to the participants.

The project will be owned by the participants in undivided interests that will be held either directly or in trust. Oberlin's share is .92 percent.

OMEGA JV-5

Ohio Municipal Electric Generation Agency Joint Venture 5(OMEGA JV-5) was organized by 42 subdivisions of the State of Ohio on April 20, 1993, pursuant to a Joint Venture Agreement under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. Its purpose was to undertake the Belleville Hydroelectric Project. The participants are members of American Municipal Power-Ohio (AMP-Ohio). OMEGA JV-5 constructed and owns and operates the project. The project operations consist of:

- The Belleville hydroelectric generating plant and associated transmission facilities (Belleville Hydroelectric Facilities)
- Backup generation facilities, including contracts for the output
- Power purchased on behalf of OMEGA JV-5 participants.

The Belleville Hydroelectric Facilities consists of a run-of-the-river hydroelectric plant designed for a capacity of 42 megawatts and approximately 26.5 miles of 138-kilowatt transmission facilities. The plant is located in West Virginia, on the Ohio River, at the Belleville Locks and Dam.

City of Oberlin-Lorain County
Notes to Financial Statements – (Continued)
For Year Ending December 31, 2002

Note 19 PARTICIPATION IN JOINT VENTURES (continued)

Participants' equity consists of contributed capital of the participants and accumulated net margins. Should OMEGA JV-5 cease business, these amounts, if available will be returned to the participants. Oberlin's share is 3.02 percent.

Note 20 PRIOR PERIOD AUDIT ADJUSTMENTS

A. Joint Venture Activity and Financial Results - \$2,715,136

The City of Oberlin is a partial owner in several joint venture projects with AMP-Ohio for the production of electric power. See footnote 19 for details of these joint ventures. The City has made all required payments to AMP-Ohio in previous years and has recognized these payments as purchased power payments. The City has not reflected its share of the total investment and related debt for its ownership interest in these joint ventures in its financial statements. A prior period adjustment is necessary to show the City's ownership interest and related debt in each of the City's joint ventures with AMP-Ohio. Details of the City's ownership interests in AMP-Ohio is shown below:

<u>Description</u>	City of Oberlin <u>Investment</u>	City of Oberlin <u>Debt</u>	Net Prior Period <u>Audit Adjustment Effect</u>
JV-1	\$23,186	\$ (0)	\$23,186
JV-2	500,335	(564,632)	(64,297)
JV-5	<u>8,631,506</u>	<u>(5,875,259)</u>	<u>2,756,347</u>
Totals	<u>\$9,155,027</u>	<u>\$(6,439,891)</u>	<u>\$2,715,136</u>

B. Misallocation of Interest Income - \$17,364

The 2001 Audit Report for the City of Oberlin understated interest income in the General Fund by \$17,364 and overstated interest income by \$17,364 in the Special Revenue Fund – Community Development Block Grant – Business Revolving Loan Fund. A prior period audit adjustment is necessary to correct for these errors.

C. Understatement of Net Fixed Assets – Water Fund - \$16,834

Total net fixed assets for the Water Fund at December 31, 2001 were understated by \$16,384. A prior period audit adjustment is required to increase the beginning retained earnings for this Enterprise fund.

**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, 2002, and have issued our report thereon dated June 27, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the 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 June 27, 2003.

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. A reportable condition is described in the accompanying schedule of reportable conditions on pages 40 and 41 and is identified as item 02-01.

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 the reportable condition 02-01, 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 June 27, 2003.

This report is intended solely for the information of the City Council, management of the City, others within the organization and is not intended to be and should not used by anyone other than these specified parties.

June 27, 2003

Watson, Rice & Co.

City of Oberlin-Lorain County
Summary Schedule of Reportable Conditions
For the Year Ended December 31, 2002

02-01

(A)(B) Physical Fixed Asset Balances Not Reconciled with Audited Fixed Asset Amounts and No Detail by Fixed Assets by Category for the General Fixed Asset Group of Accounts

Condition

The City of Oberlin performed a complete fixed asset observation of all vehicles equipment and furniture fixtures during 1999 and compiled a listing of all of these fixed assets. The fixed asset observation excluded buildings, land and infrastructure. No reconciliation was performed in 1999 or later of the observed physical inventory of fixed assets with either the reported fixed assets in General Fixed Asset Group of Accounts or the fixed assets in the Proprietary Fund Groups (Enterprise and Internal Service Funds). In addition the City maintains a cumulative total of fixed assets in it General Fixed Assets Group of Accounts but does not maintain detailed records of these fixed assets by type (such as land, buildings, equipment, vehicles, furniture and fixtures etc.).

Cause

The reconciliation is not performed for the General Fixed Assets Group of Accounts because the City has historically only maintained a summary total of its fixed assets for the General Fixed Asset Group of Accounts. Each year additions and deletions are added to the cumulative total from the previous year. The total does not distinguish fixed assets by type (i.e. – land, furniture and equipment, etc) and this reconciliation cannot be performed. More detailed accounting records exist for proprietary funds, but these records are not in sufficient detail (such as type of equipment, description of item, etc.) to enable a comparison and reconciliation with physical inventory items.

Effect

The City has not reconciled its physically observed fixed assets with its audited reported fixed assets for either the General Fixed Asset Group of Accounts or its Proprietary Funds.

Criteria

Generally accepted accounting principle (GAAP) require that physically observed fixed assets (the detail subsidiary) schedules be reconciled with the City's reported fixed assets.

City of Oberlin-Lorain County
Summary Schedule of Reportable Conditions
For the Year Ended December 31, 2002

Recommendation

The City needs to reconcile its physically observed fixed assets to its audited fixed assets for the General Fixed Asset Account Group and fixed assets for the Enterprise and Internal Service Funds. Differences should be investigated and posted to the general ledger so that the detailed schedules agree to the City's audited financial statements. Additionally, the City needs to compile its General Fixed Group of Accounts of fixed assets by category (land, buildings, equipment, furniture and fixtures, etc.).

Management Response

The City will address this issue as it implements the new financial reporting model as prescribed the Governmental Accounting Standards Board as required by 2007 for fixed assets.

- A. Material Weakness
- B. Report Comment from Prior Year Audit

City of Oberlin-Lorain County
Status of Prior Year Reportable Conditions

01-01 Physical Fixed Asset Balances Not Reconciled with Audited Fixed Asset Amount-
Reissued as Reportable Condition number 02-01 in 2002

City of *Oberlin*

69 South Main Street Oberlin, Ohio 44074

The following is the City of Oberlin's Corrective Action Plan for the reportable conditions noted in the calendar year 2002 audit.

01-02 Physical Fixed Asset Balances Not Reconciled with Audited Fixed Asset Amounts

City Corrective Action Plan

The city will address this issue as it implements the new financial reporting model as prescribed the Governmental Accounting Standards (GASB) as required by 2007 for fixed assets.

"Ohio's Best College Town"

—OHIO Magazine



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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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 25, 2003**