

CITY OF OBERLIN, OHIO

SINGLE AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2005



**Auditor of State
Betty Montgomery**

Honorable Mayor, City Manager,
City Auditor and Members of City Council
City of Oberlin
85 South Main Street
Oberlin, Ohio 44074

We have reviewed the *Independent Auditor's Report* of the City of Oberlin, Lorain County, prepared by James G. Zupka, CPA, Inc., for the audit period January 1, 2005 through December 31, 2005. 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.

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

BETTY MONTGOMERY
Auditor of State

August 17, 2006

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**CITY OF OBERLIN, OHIO
SINGLE AUDIT REPORT
FOR THE YEAR ENDED DECEMBER 31, 2005**

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JAMES G. ZUPKA, C.P.A., INC.

Certified Public Accountants

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Ohio Society of Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor, City Manager, City Auditor,
and Members of City Council
City of Oberlin, Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oberlin, Ohio, as of and for the year ended December 31, 2005, which collectively comprise the City of Oberlin, Ohio's basic financial statements and have issued our report thereon dated June 8, 2006. The City has retroactively reported major infrastructure assets, as allowed by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of December 31, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of American and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Oberlin, Ohio's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by an error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Oberlin, Ohio's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Oberlin, Ohio in a separate letter dated June 8, 2006.

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

James G. Zupka
Certified Public Accountant

June 8, 2006

JAMES G. ZUPKA, C.P.A., INC.

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

Honorable Mayor, City Manager, City Auditor,
and Members of City Council
City of Oberlin, Ohio

Compliance

We have audited the compliance of the City of Oberlin, Ohio, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2005. The City of Oberlin, Ohio's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Oberlin, Ohio's management. Our responsibility is to express an opinion on the City of Oberlin, Ohio's compliance based on our audit.

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

In our opinion, the City of Oberlin, Ohio complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2005.

Internal Control Over Compliance

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

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

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate fund information of the City of Oberlin, Ohio, as of and for the year ended December 31, 2005, and have issued our report thereon dated June 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Oberlin, Ohio's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, members of City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

James G. Zupka, CPA, Inc.
Certified Public Accountants

June 8, 2006

**CITY OF OBERLIN, OHIO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005**

Federal Grantor Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Direct Program Expenditures
United States Department of Housing and Urban Development			
<i>Passed Through Ohio Department of Development</i>			
Small Cities Community Development Block Grant Program			
Downtown Revitalization Program	A-T-03-160-1	14.228	\$ 320,285
Comprehensive Housing Improvement Program	A-C-03-160-1	14.228	<u>52,476</u>
Total Passed Through Small Cities Community Development Block Grant Program			<u>372,761</u>
Home Investment Partnership Program	A-C-03-160-2	14.239	<u>310,371</u>
Total Passed Through Ohio Department of Development			<u>683,132</u>
<i>Passed Through Lorain County</i>			
Community Development Block Grant	B-F-03-043-1	14.228	20,000
Community Development Block Grant	B-F-04-043-1	14.228	<u>26,350</u>
Total Passed Through Lorain County			<u>46,350</u>
Total United States Department of Housing and Urban Development			<u>729,482</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 729,482</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

CITY OF OBERLIN, OHIO
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

NOTE 1: **GENERAL**

The accompanying Schedule of Expenditures of Federal Awards of the City presents the activity of all federal financial assistance programs to the City. The City's reporting entity is defined in Note 1 to the City's basic financial statements. Federal financial assistance received directly from federal agencies as well as financial assistance passed through other government agencies are included on this schedule.

NOTE 2: **BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting.

**CITY OF OBERLIN, OHIO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
OMB CIRCULAR A-133 & .505
FOR THE YEAR ENDED DECEMBER 31, 2005**

1. Summary of Auditor's Results

2005(i)	Type of Financial Statement Opinion	Unqualified
2005(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
2005(iii)	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
2005(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
2005(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
2005(v)	Type of Major Programs' Compliance Opinion	Unqualified
2005(vi)	Are there any reportable findings under .510?	No
2005(vii)	Major Programs (list): Community Development Block Grant - CFDA #14.228 HOME Investment Partnership Program - CFDA #14.239	
2005(viii)	Dollar Threshold: Type A\B Programs	Type A: > \$300,000 Type B: > All Others
2005 (ix)	Low Risk Auditee?	No

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

None.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None.

CITY OF OBERLIN, OHIO
STATUS OF PRIOR CITATIONS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2005

The prior audit report, as of December 31, 2004, included no citations. Management letter recommendations have been corrected, repeated, or procedures instituted to prevent occurrences in this audit period.

CITY OF OBERLIN, OHIO

BASIC FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
DECEMBER 31, 2005**

Prepared by:
Salvatore Talarico
Director of Finance

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor, City Manager, City Auditor,
and Members of City Council
City of Oberlin, Ohio

The Honorable Betty Montgomery
Auditor of State
State of Ohio

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oberlin, Lorain County, Ohio as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Oberlin, Ohio's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Oberlin, Lorain County, Ohio, as of December 31, 2005, and the respective changes in financial position and, where applicable, cash flows therefore and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the City has retroactively reported major infrastructure assets, as allowed by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended and interpreted, as of December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2006 on our consideration of the City of Oberlin, Ohio's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



James G. Zupka, CPA, Inc.
Certified Public Accountants

June 8, 2006

CITY OF OBERLIN, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

The discussion and analysis of the City of Oberlin's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers should also review the notes to the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2005 are as follows:

- ❑ In total, net assets increased \$846,103. Net assets of governmental activities increased \$1,510,687, which represents a 4.4% increase from 2004. Net assets of business-type activities decreased \$664,584 from 2004.
- ❑ General revenues accounted for \$8.1 million in revenue or 34% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for 66% of total revenues of \$24 million.
- ❑ The City had \$8.7 million in expenses related to governmental activities; only \$2.4 million of these expenses were offset by program specific charges for services, grants or contributions. General revenues (primarily taxes) of \$7.1 million were adequate to provide for these programs.
- ❑ Among major funds, the general fund had \$6.2 million in revenues and \$6 million in expenditures. The general fund's fund balance increased \$536,370 to \$6,178,364 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – *management's discussion and analysis* and the *basic financial statements*. The basic financial statements include two kinds of statements that present different views of the City:

These statements are as follows:

1. *The Government-Wide Financial Statements* – These statements provide both long-term and short-term information about the City's overall financial status.
2. *The Fund Financial Statements* – These statements focus on individual parts of the City, reporting the City's operations in more detail than the government-wide statements.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF OBERLIN, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

Government-wide Statements

The government-wide statements report information about the City as a whole using accepting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and the changes in net assets from the prior year. Net-assets (the difference between the City's assets and liabilities) is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City you need to consider additional nonfinancial factors such as property tax base, current property tax laws, conditions of the City's streets and continued growth within the City.

The government-wide financial statements of the City are divided into two categories:

- *Governmental Activities* – Most of the City's program's and services are reported here including security of persons and property, public health and welfare services, leisure time activities, community environment, transportation and general government.
- *Business-Type Activities* – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided. The City's water, sewer, electric, refuse and cable services are reported as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds, not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

Governmental Funds – Most of the City's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance municipal services programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CITY OF OBERLIN, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

Proprietary Funds – Proprietary funds use the same basis of accounting as business-type activities; therefore, these statements will essentially match.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following table provides a comparison of net assets between 2005 and 2004:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$12,150,388	\$11,260,395	\$14,622,868	\$14,994,818	\$26,773,256	\$26,255,213
Capital assets, Net	27,048,063	26,630,351	15,050,395	15,601,086	42,098,458	42,231,437
Total assets	39,198,451	37,890,746	29,673,263	30,595,904	68,871,714	68,486,650
Long-term debt outstanding	1,886,453	2,182,854	4,891,927	5,330,890	6,778,380	7,513,744
Other liabilities	1,716,263	1,622,844	806,172	625,266	2,522,435	2,248,110
Total liabilities	3,602,716	3,805,698	5,698,099	5,956,156	9,300,815	9,761,854
Net assets						
Invested in capital assets, net of related debt	25,684,446	5,488,405	11,106,958	11,211,744	36,791,404	16,700,149
Restricted	3,841,578	3,455,006	0	0	3,841,578	3,455,006
Unrestricted	6,069,711	5,706,547	12,868,206	13,691,099	18,937,917	19,397,646
Total net assets	<u>\$35,595,735</u>	<u>\$34,085,048</u>	<u>\$23,975,164</u>	<u>\$24,639,748</u>	<u>\$59,570,899</u>	<u>\$58,724,796</u>

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CITY OF OBERLIN, OHIO

Management's Discussion and Analysis For the Year Ended December 31, 2005

Unaudited

Changes in Net Assets – The following table shows the changes in net assets for the fiscal year 2005 and 2004:

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues						
Program revenues:						
Charges for Services and Sales	\$1,347,342	\$1,123,550	\$13,443,641	\$12,198,153	\$14,790,983	\$13,321,703
Operating Grants and Contributions	854,177	390,354	0	0	854,177	390,354
Capital Grants and Contributions	150,392	32,121	0	0	150,392	32,121
General revenues:						
Property Taxes	819,592	910,741	302,064	330,158	1,121,656	1,240,899
Income Taxes	3,890,579	4,273,125	447,456	488,220	4,338,035	4,761,345
Shared Revenues	1,443,882	1,768,812	0	0	1,443,882	1,768,812
Investment Earnings	663,028	302,577	319,277	346,222	982,305	648,799
Miscellaneous	265,715	161,133	0	0	265,715	161,133
Total revenues	9,434,707	8,962,413	14,512,438	13,362,753	23,947,145	22,325,166
Program Expenses						
Security of Persons and Property	2,865,418	2,524,461	0	0	2,865,418	2,524,461
Public Health and Welfare Services	109,529	108,656	0	0	109,529	108,656
Leisure Time Activities	706,601	628,105	0	0	706,601	628,105
Community Development	1,015,896	731,721	0	0	1,015,896	731,721
Basic Utility Services	128,344	106,484	0	0	128,344	106,484
Transportation	979,539	1,061,386	0	0	979,539	1,061,386
General Government	2,795,259	2,641,346	0	0	2,795,259	2,641,346
Interest and Fiscal Charges	82,265	106,896	0	0	82,265	106,896
Cable	0	0	2,790	700	2,790	700
Water	0	0	1,374,173	1,350,719	1,374,173	1,350,719
Sewer	0	0	1,694,372	1,950,422	1,694,372	1,950,422
Refuse	0	0	581,521	426,288	581,521	426,288
Electric	0	0	10,765,335	8,447,874	10,765,335	8,447,874
Total expenses	8,682,851	7,909,055	14,418,191	12,176,003	23,101,042	20,085,058
Excess (deficiency) before Transfers	751,856	1,053,358	94,247	1,186,750	846,103	2,240,108
Transfers In (Out)	758,831	793,380	(758,831)	(793,380)	0	0
Total Change in Net Assets	1,510,687	1,846,738	(664,584)	393,370	846,103	2,240,108
Beginning Net Assets - as Restated	34,085,048	32,238,310	24,639,748	24,246,378	58,724,796	56,484,688
Ending Net Assets	\$35,595,735	\$34,085,048	\$23,975,164	\$24,639,748	\$59,570,899	\$58,724,796

CITY OF OBERLIN, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

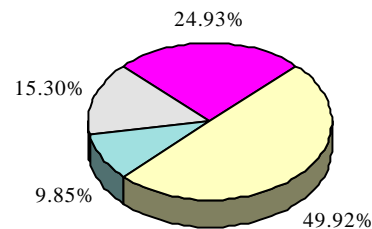
Governmental Activities

Net assets of the City's governmental activities increased by \$1,510,687. This increase was primarily due to additional revenue from grants and charges for services. Although income tax collections decreased in 2005, the City's revenues still exceeded expenditures.

The City also receives an income tax, which is based on 1.9% of all salaries, wages, commissions and other compensation earned from residents living within the City and from nonresidents for work done or services performed or rendered in the City.

Property taxes and income taxes made up 8.7% and 41.24% respectively of revenues for governmental activities for the City in fiscal year 2005. The City's reliance upon tax revenues is demonstrated by the following graph indicating 49.92% of total revenues from general tax revenues:

Revenue Sources	2005	Percent of Total
General Shared Revenues	\$1,443,882	15.30%
Program Revenues	2,351,911	24.93%
General Tax Revenues	4,710,171	49.92%
General Other	928,743	9.85%
Total Revenue	<u>\$9,434,707</u>	<u>100.00%</u>



Business-Type Activities

Net assets of the business-type activities decreased by \$664,584. This decrease was due to major sewer and water upgrades, and new infrastructure for continued development in the City. User rates in the enterprise funds are evaluated annually by management according to rate formulas approved by the legislative body. Changes to user rates are made annually when necessary to keep pace with increased operational and capital costs.

CITY OF OBERLIN, OHIO

*Management's Discussion and Analysis
For the Year Ended December 31, 2005*

Unaudited

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The City's governmental funds reported a combined fund balance of \$9,689,695, which is an increase from last year's balance of \$9,030,425. The schedule below indicates the fund balance and the total change in fund balance by fund type as of December 31, 2005 and 2004:

	Fund Balance December 31, 2005	Fund Balance December 31, 2004	Increase (Decrease)
General	\$6,178,364	\$5,641,994	\$536,370
Income Tax	1,649,155	1,500,594	148,561
Other Governmental	1,862,176	1,887,837	(25,661)
Total	\$9,689,695	\$9,030,425	\$659,270

General Fund – The City's General Fund balance increase is due to many factors. The tables that follow assist in illustrating the financial activities and balance of the General Fund:

	2005 Revenues	2004 Revenues	Increase (Decrease)
Taxes	\$3,224,452	\$3,005,247	\$219,205
Intergovernmental Revenue	1,285,871	1,567,103	(281,232)
Charges for Services	120,929	178,423	(57,494)
Licenses and Permits	159,184	124,721	34,463
Fines and Forfeitures	725,983	648,837	77,146
Investment Earnings	659,620	283,780	375,840
All Other Revenue	67,126	19,288	47,838
Total	\$6,243,165	\$5,827,399	\$415,766

General Fund revenues in 2005 increased approximately 7.1% compared to revenues in fiscal year 2004.

	2005 Expenditures	2004 Expenditures	Increase (Decrease)
Security of Persons and Property	\$2,303,412	\$2,080,108	\$223,304
Public Health and Welfare Services	104,464	103,444	1,020
Leisure Time Activities	468,327	428,647	39,680
Community Development	377,280	358,831	18,449
Transportation	170,568	155,787	14,781
General Government	2,637,727	2,511,667	126,060
Total	\$6,061,778	\$5,638,484	\$423,294

CITY OF OBERLIN, OHIO

**Management's Discussion and Analysis
For the Year Ended December 31, 2005**

Unaudited

General Fund expenditures increased by \$423,294 or 7.5% compared to the prior year mostly due to contractual wage increases, and increases in health care and workers' comp premiums.

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund.

During the course of fiscal year 2005 the City amended its General Fund budget several times, none significant.

For the General Fund, final budget basis revenue of \$5.6 million did not significantly change over the original budget estimates of \$5.5 million. The General Fund had an adequate fund balance to cover expenditures.

For the Income Tax Fund, the fund balance increase reflects the City's efforts to reserve funds in anticipation of constructing a new public works center. Income tax revenue decreased compared to 2004.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal 2005 the City had \$42,098,458 net of accumulated depreciation invested in land, improvements, infrastructure, buildings, machinery and equipment and construction in progress. Of this total, \$27,048,063 was related to governmental activities and \$15,050,395 to the business-type activities. The following table shows fiscal year 2005 and 2004 balances:

	Governmental Activities		Increase (Decrease)
	2005	2004	
	Land	\$2,121,614	\$2,121,614
Infrastructure	31,357,609	30,644,283	713,326
Buildings	3,685,149	3,685,149	0
Improvements Other Than Buildings	218,890	0	218,890
Machinery and Equipment	4,115,267	3,926,168	189,099
Construction in Progress	1,004,064	290,179	713,885
Less: Accumulated Depreciation	(15,454,530)	(14,037,042)	(1,417,488)
Totals	\$27,048,063	\$26,630,351	\$417,712

	Business-Type Activities		Increase (Decrease)
	2005	2004	
	Land	\$175,773	\$175,773
Buildings	461,809	456,309	5,500
Infrastructure	9,206,258	9,206,258	0
Improvements Other Than Buildings	115,198	115,198	0
Machinery and Equipment	13,250,078	12,907,827	342,251
Construction in Progress	3,490,017	3,472,358	17,659
Less: Accumulated Depreciation	(11,648,738)	(10,732,637)	(916,101)
Totals	\$15,050,395	\$15,601,086	(\$550,691)

CITY OF OBERLIN, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

The primary increases in governmental activities occurred in machinery and equipment and infrastructure. Additional information on the City's capital assets can be found in Note 10.

Debt

At December 31, 2005, the City had \$2 million in bonds outstanding, \$520,565 due within one year. The following table summarizes the City's debt outstanding as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Governmental Activities:		
Special Assessment Bonds		
with Governmental Commitment	\$305,296	\$355,499
General Obligation Bonds	830,080	1,052,195
Capital Leases	228,241	299,162
Compensated Absences	<u>522,836</u>	<u>475,998</u>
Total Governmental Activities	1,886,453	2,182,854
Business-Type Activities:		
Mortgage Revenue Bonds	\$845,000	\$1,100,000
OWDA Loans Payable	3,098,814	3,552,437
Payable to Joint Venture	691,026	436,848
Compensated Absences	<u>257,087</u>	<u>241,605</u>
Total Business-Type Activities	<u>4,891,927</u>	<u>5,330,890</u>
Totals	<u><u>\$6,778,380</u></u>	<u><u>\$7,513,744</u></u>

State statutes limit the amount of unvoted general obligation debt the City may issue. The aggregate amount of the City's unvoted debt is also subject to overlapping debt restrictions with other political subdivisions. The actual aggregate amount of the City's unvoted debt, when added to that of other political subdivisions within the county is limited to ten mills. At December 31, 2005, the City's outstanding debt was below the legal limit. Additional information on the City's long-term debt can be found in Note 14.

ECONOMIC FACTORS

The City's original budget for 2005 utilized conservative revenue estimates with limited increases in base operating costs. However, due to projected declines in certain revenues, expenditures were *projected* to exceed revenues in some of the funds, including the General Fund. City Council decided they wanted to maintain current service levels to the residents of the City by utilizing reserve fund balances. Original General Fund revenues were projected to be 15% less than the actual receipts for 2005. This was due to a projected decrease in interest income because of the low interest rates on investments and uncertainty in the amount of actual municipal income taxes to be collected due to uncertain economic conditions.

General Fund expenditures were originally budgeted at 8% more than 2005 actual expenditures. No additional personnel were added in the final approved budget. Department requests were reduced from original submissions; certain requested capital projects and capital acquisitions were eliminated or reduced; and only those items that management and City Council determined necessary were appropriated.

CITY OF OBERLIN, OHIO

***Management's Discussion and Analysis
For the Year Ended December 31, 2005***

Unaudited

City Council continues to pursue new revenue sources, while reviewing the possibility of increasing existing sources, in addition to a continued review of reducing expenditures. A close watch of current economic conditions is ongoing to determine if increased revenues, or further reductions in expenditures, are necessary in order to maintain fiscal stability.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Finance Department by calling 440-775-7212 or writing to City of Oberlin Finance Department, 69 South Main Street, Oberlin, Ohio 44074.

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CITY OF OBERLIN, OHIO

Statement of Net Assets *December 31, 2005*

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents	\$ 2,927,317	\$ 2,816,853	\$ 5,744,170
Investments	6,383,439	8,259,584	14,643,023
Receivables:			
Taxes	1,785,358	393,863	2,179,221
Accounts	64,754	1,144,306	1,209,060
Intergovernmental	645,420	179,700	825,120
Interest	35,638	54,439	90,077
Special Assessments	4,412	0	4,412
Loans	303,850	0	303,850
Internal Balances	(101,967)	101,967	0
Inventory of Supplies at Cost	26,607	276,747	303,354
Prepaid Items	75,560	52,771	128,331
Restricted Assets:			
Cash and Cash Equivalents	0	3,835	3,835
Investments	0	323,749	323,749
Capital Assets:			
Capital Assets Not Being Depreciated	3,125,678	3,665,790	6,791,468
Capital Assets Being Depreciated, Net	23,922,385	11,384,605	35,306,990
Investment in Joint Venture	0	1,015,054	1,015,054
Total Assets	<u>39,198,451</u>	<u>29,673,263</u>	<u>68,871,714</u>
Liabilities:			
Accounts Payable	103,243	106,828	210,071
Accrued Wages and Benefits	379,563	192,086	571,649
Contracts Payable	125,237	205,735	330,972
Due to Others	131,988	0	131,988
Unearned Revenue	819,380	301,523	1,120,903
Accrued Interest Payable	11,852	0	11,852
General Obligation Notes Payable	145,000	0	145,000
Long-Term Liabilities:			
Due Within One Year	560,362	663,433	1,223,795
Due in More Than One Year	1,326,091	4,228,494	5,554,585
Total Liabilities	<u>3,602,716</u>	<u>5,698,099</u>	<u>9,300,815</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	25,684,446	11,106,958	36,791,404
Restricted For:			
Capital Projects	2,016,177	0	2,016,177
Debt Service	399,905	0	399,905
Other Purposes	1,425,496	0	1,425,496
Unrestricted	6,069,711	12,868,206	18,937,917
Total Net Assets	<u>\$ 35,595,735</u>	<u>\$ 23,975,164</u>	<u>\$ 59,570,899</u>

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Statement of Activities *For the Year Ended December 31, 2005*

	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Current:				
Security of Persons and Property	\$ 2,865,418	\$ 56,714	\$ 86,443	\$ 0
Public Health and Welfare Services	109,529	27,375	0	0
Leisure Time Activities	706,601	6,125	0	0
Community Development	1,015,896	151,435	471,107	0
Basic Utility Services	128,344	34	57,846	0
Transportation	979,539	17,631	238,781	150,392
General Government	2,795,259	1,088,028	0	0
Interest and Fiscal Charges	82,265	0	0	0
Total Governmental Activities	<u>8,682,851</u>	<u>1,347,342</u>	<u>854,177</u>	<u>150,392</u>
Business-Type Activities:				
Cable	2,790	10,891	0	0
Water	1,374,173	1,677,261	0	0
Sewer	1,694,372	1,427,321	0	0
Refuse	581,521	384,434	0	0
Electric	10,765,335	9,943,734	0	0
Total Business-Type Activities	<u>14,418,191</u>	<u>13,443,641</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 23,101,042</u>	<u>\$ 14,790,983</u>	<u>\$ 854,177</u>	<u>\$ 150,392</u>

General Revenues

Property Taxes
Municipal Income Taxes
Grants and Entitlements not Restricted to Specific Programs
Investment Earnings
Miscellaneous
Transfers
Total General Revenues and Transfers

Change in Net Assets

Net Assets Beginning of Year, as Restated
Net Assets End of Year

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,722,261)	\$ 0	\$ (2,722,261)
(82,154)	0	(82,154)
(700,476)	0	(700,476)
(393,354)	0	(393,354)
(70,464)	0	(70,464)
(572,735)	0	(572,735)
(1,707,231)	0	(1,707,231)
<u>(82,265)</u>	<u>0</u>	<u>(82,265)</u>
<u>(6,330,940)</u>	<u>0</u>	<u>(6,330,940)</u>
0	8,101	8,101
0	303,088	303,088
0	(267,051)	(267,051)
0	(197,087)	(197,087)
<u>0</u>	<u>(821,601)</u>	<u>(821,601)</u>
<u>0</u>	<u>(974,550)</u>	<u>(974,550)</u>
<u>(6,330,940)</u>	<u>(974,550)</u>	<u>(7,305,490)</u>
819,592	302,064	1,121,656
3,890,579	447,456	4,338,035
1,443,882	0	1,443,882
663,028	319,277	982,305
265,715	0	265,715
<u>758,831</u>	<u>(758,831)</u>	<u>0</u>
<u>7,841,627</u>	<u>309,966</u>	<u>8,151,593</u>
1,510,687	(664,584)	846,103
<u>34,085,048</u>	<u>24,639,748</u>	<u>58,724,796</u>
<u>\$ 35,595,735</u>	<u>\$ 23,975,164</u>	<u>\$ 59,570,899</u>

CITY OF OBERLIN, OHIO

Balance Sheet Governmental Funds December 31, 2005

	General	Income Tax	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and Cash Equivalents	\$ 1,021,329	\$ 291,878	\$ 1,561,919	\$ 2,875,126
Investments	4,208,211	1,201,770	973,458	6,383,439
Receivables:				
Taxes	1,138,337	212,274	434,747	1,785,358
Accounts	64,754	0	0	64,754
Intergovernmental	482,727	0	162,693	645,420
Interest	27,717	7,921	0	35,638
Special Assessments	4,269	0	143	4,412
Loans	0	0	303,850	303,850
Interfund Loans Receivable	387,737	0	0	387,737
Inventory of Supplies, at Cost	4,172	0	12,485	16,657
Prepaid Items	67,161	0	4,727	71,888
Total Assets	\$ 7,406,414	\$ 1,713,843	\$ 3,454,022	\$ 12,574,279
Liabilities:				
Accounts Payable	\$ 62,751	\$ 2,486	\$ 28,022	\$ 93,259
Accrued Wages and Benefits Payable	297,223	0	77,895	375,118
Contracts Payable	0	59,156	66,081	125,237
Due to Others	0	0	131,988	131,988
Interfund Loans Payable	0	0	382,923	382,923
Deferred Revenue	868,076	3,046	758,644	1,629,766
Accrued Interest Payable	0	0	1,293	1,293
General Obligation Notes Payable	0	0	145,000	145,000
Total Liabilities	1,228,050	64,688	1,591,846	2,884,584
Fund Balances:				
Reserved for Encumbrances	182,816	393,029	495,950	1,071,795
Reserved for Prepaid Items	67,161	0	4,727	71,888
Reserved for Supplies Inventory	4,172	0	12,485	16,657
Reserved for Debt Service	0	0	410,464	410,464
Reserved for Endowments	0	0	27,259	27,259
Undesignated/Unreserved in:				
General Fund	5,924,215	0	0	5,924,215
Special Revenue Funds	0	0	738,012	738,012
Capital Projects Funds	0	1,256,126	173,279	1,429,405
Total Fund Balances	6,178,364	1,649,155	1,862,176	9,689,695
Total Liabilities and Funds Balances	\$ 7,406,414	\$ 1,713,843	\$ 3,454,022	\$ 12,574,279

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

***Reconciliation Of Total Governmental Fund Balances
To Net Assets Of Governmental Activities
December 31, 2005***

Total Governmental Fund Balances	\$ 9,689,695
<i>Amounts reported for governmental activities in the statement of net assets are different because</i>	
Capital Assets used in governmental activities are not resources and therefore are not reported in the funds.	26,793,296
Other long-term assets are not available to pay for current- period expenditures and therefore are deferred in the funds.	810,386
Internal service funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	194,635
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(1,892,277)</u>
<i>Net Assets of Governmental Funds</i>	<u><u>\$ 35,595,735</u></u>

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended December 31, 2005

	General	Income Tax	Other Governmental Funds	Total Governmental Funds
Revenues:				
Property Taxes	\$ 486,089	\$ 0	\$ 382,019	\$ 868,108
Municipal Income Tax	2,738,363	1,141,595	10,621	3,890,579
Intergovernmental Revenues	1,285,871	0	1,051,109	2,336,980
Charges for Services	120,929	0	96,474	217,403
Licenses and Permits	159,184	0	0	159,184
Investment Earnings	659,620	2,295	9,913	671,828
Special Assessments	0	0	48,245	48,245
Fines and Forfeitures	725,983	0	108,505	834,488
All Other Revenue	67,126	0	170,668	237,794
Total Revenue	6,243,165	1,143,890	1,877,554	9,264,609
Expenditures:				
Current:				
Security of Persons and Property	2,303,412	0	324,530	2,627,942
Public Health and Welfare Services	104,464	0	0	104,464
Leisure Time Activities	468,327	0	146,947	615,274
Community Development	377,280	0	633,026	1,010,306
Basic Utility Services	0	0	127,798	127,798
Transportation	170,568	0	345,420	515,988
General Government	2,637,727	0	70,031	2,707,758
Capital Outlay	0	854,636	450,073	1,304,709
Debt Service:				
Principal Retirement	0	0	272,318	272,318
Interest & Fiscal Charges	0	0	85,932	85,932
Total Expenditures	6,061,778	854,636	2,456,075	9,372,489
Excess (Deficiency) of Revenues Over Expenditures				
	181,387	289,254	(578,521)	(107,880)
Other Financing Sources (Uses):				
Sale of Capital Assets	0	0	4,000	4,000
Transfers In	604,138	104,000	768,480	1,476,618
Transfers Out	(246,600)	(244,693)	(221,494)	(712,787)
Total Other Financing Sources (Uses)	357,538	(140,693)	550,986	767,831
Net Change in Fund Balances	538,925	148,561	(27,535)	659,951
Fund Balances at Beginning of Year	5,641,994	1,500,594	1,887,837	9,030,425
Increase (Decrease) in Inventory Reserve	(2,555)	0	1,874	(681)
Fund Balances End of Year	\$ 6,178,364	\$ 1,649,155	\$ 1,862,176	\$ 9,689,695

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Reconciliation Of The Statement Of Revenues, Expenditures And Changes In Fund Balances Of Governmental Funds To The Statement Of Activities For The Year Ended December 31, 2005

Net Change in Fund Balances - Total Governmental Funds \$ 659,951

Amounts reported for governmental activities in the statement of activities are different because

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 378,880

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. This is the amount of the loss on the disposal of fixed assets net of proceeds received. (31,971)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 166,098

The issuance of long-term debt provides current financial resources to governmental funds, but has no effect on net assets. In addition, repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 353,912

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 3,667

Some expenses reported in the statement of activities, such as compensated absences and intergovernmental payable which represents contractually required pension contributions, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. (47,063)

The internal service funds are used by management to charge the costs of services to individual funds is not reported in the statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the governmental activities. 27,213

Change in Net Assets of Governmental Activities \$ 1,510,687

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

**Statement of Revenues, Expenditures and Changes in
Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis)
General Fund
For The Year Ended December 31, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Property Taxes	\$ 460,264	\$ 460,264	\$ 486,089	\$ 25,825
Municipal Income Tax	2,878,500	2,878,500	2,825,777	(52,723)
Intergovernmental Revenue	1,057,529	1,129,786	1,169,011	39,225
Charges for Services	62,000	62,000	120,613	58,613
Licenses and Permits	114,000	114,000	145,757	31,757
Investment Earnings	260,000	260,000	635,474	375,474
Fines and Forfeitures	640,000	640,000	674,972	34,972
All Other Revenues	15,500	15,500	67,126	51,626
Total Revenues	<u>5,487,793</u>	<u>5,560,050</u>	<u>6,124,819</u>	<u>564,769</u>
Expenditures:				
Current:				
Security of Persons and Property	2,274,234	2,392,293	2,329,814	62,479
Public Health and Welfare Services	117,072	117,073	102,722	14,351
Leisure Time Activities	491,908	491,908	465,336	26,572
Community Environment	469,122	467,653	403,127	64,526
Transportation	172,209	174,658	170,568	4,090
General Government	2,939,486	2,969,379	2,712,582	256,797
Total Expenditures	<u>6,464,031</u>	<u>6,612,964</u>	<u>6,184,149</u>	<u>428,815</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(976,238)	(1,052,914)	(59,330)	993,584
Other Financing Sources (Uses):				
Sale of Capital Assets	5,000	5,000	0	(5,000)
Transfers In	594,706	594,706	604,138	9,432
Transfers Out	(246,600)	(246,600)	(246,600)	0
Advances In	250,000	250,000	266,439	16,439
Advances Out	(150,000)	(460,000)	(387,737)	72,263
Total Other Financing Sources (Uses):	<u>453,106</u>	<u>143,106</u>	<u>236,240</u>	<u>93,134</u>
Net Change In Fund Balance	(523,132)	(909,808)	176,910	1,086,718
Fund Balance at Beginning of Year	4,634,002	4,634,002	4,634,002	0
Prior Year Encumbrances	199,730	199,730	199,730	0
Fund Balance at End of Year	<u>\$ 4,310,600</u>	<u>\$ 3,923,924</u>	<u>\$ 5,010,642</u>	<u>\$ 1,086,718</u>

See accompanying notes to the basic financial statements

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CITY OF OBERLIN, OHIO

Statement of Net Assets
Proprietary Funds
December 31, 2005

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Electric
Assets:			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 413,516	\$ 574,416	\$ 1,007,771
Investments	1,702,599	2,407,615	4,149,370
<i>Receivables:</i>			
Taxes	0	83,211	0
Accounts	125,759	112,030	876,440
Intergovernmental	0	0	179,700
Interest	11,272	14,354	28,813
Inventory of Supplies at Cost	17,155	2,321	257,271
Prepaid Items	11,856	4,959	32,252
<i>Restricted Assets:</i>			
Cash and Cash Equivalents	0	3,835	0
Investments	0	323,749	0
Total Current Assets	2,282,157	3,526,490	6,531,617
<i>Non Current Assets:</i>			
Capital Assets, Net	5,303,124	6,251,188	3,261,516
Investment in Joint Venture	0	0	1,015,054
Total Assets	7,585,281	9,777,678	10,808,187
Liabilities:			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 6,435	\$ 33,355	\$ 49,298
Accrued Wages and Benefits	50,516	34,242	92,912
Contracts Payable	0	0	205,735
Interfund Loans Payable	0	0	0
Deferred Revenue	0	0	0
Mortgage Revenue Bonds - Current	0	270,000	0
Ohio Water Development Authority Loans - Current	0	304,413	0
Total Current Liabilities	56,951	642,010	347,945
<i>Long Term Liabilities:</i>			
Compensated Absences Payable	62,956	51,224	125,253
Revenue Bonds Payable	0	575,000	0
OWDA Loans Payable	0	2,794,401	0
Payable to Joint Venture	0	0	691,026
Total Liabilities	119,907	4,062,635	1,164,224
Net Assets:			
Invested in Capital Assets, Net of Related Debt	5,303,124	2,307,751	3,261,516
Unrestricted	2,162,250	3,407,292	6,382,447
Total Net Assets	\$ 7,465,374	\$ 5,715,043	\$ 9,643,963

Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.

Net Assets of Business-type Activities

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Refuse	Cable	Total	Governmental Activities - Internal Service Funds
\$ 762,123	\$ 59,027	\$ 2,816,853	\$ 52,191
0	0	8,259,584	0
310,652	0	393,863	0
30,077	0	1,144,306	0
0	0	179,700	0
0	0	54,439	0
0	0	276,747	9,950
3,704	0	52,771	3,672
0	0	3,835	0
0	0	323,749	0
<u>1,106,556</u>	<u>59,027</u>	<u>13,505,847</u>	<u>65,813</u>
221,560	13,007	15,050,395	254,767
0	0	1,015,054	0
<u>1,328,116</u>	<u>72,034</u>	<u>29,571,296</u>	<u>320,580</u>
\$ 17,740	\$ 0	\$ 106,828	\$ 9,984
14,416	0	192,086	4,445
0	0	205,735	0
0	0	0	4,814
301,523	0	301,523	0
0	0	270,000	0
0	0	304,413	0
<u>333,679</u>	<u>0</u>	<u>1,380,585</u>	<u>19,243</u>
17,654	0	257,087	4,735
0	0	575,000	0
0	0	2,794,401	0
0	0	691,026	0
<u>351,333</u>	<u>0</u>	<u>5,698,099</u>	<u>23,978</u>
221,560	13,007	11,106,958	254,767
<u>755,223</u>	<u>59,027</u>	<u>12,766,239</u>	<u>41,835</u>
<u>\$ 976,783</u>	<u>\$ 72,034</u>	<u>23,873,197</u>	<u>\$ 296,602</u>
		<u>101,967</u>	
		<u>\$ 23,975,164</u>	

CITY OF OBERLIN, OHIO

**Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2005**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Electric
Operating Revenues:			
Property Taxes	\$ 0	\$ 0	\$ 0
Municipal Income Taxes	0	447,456	0
Charges for Services	1,677,261	1,427,321	9,716,483
Other Operating Revenue	0	0	179,700
Total Operating Revenues	<u>1,677,261</u>	<u>1,874,777</u>	<u>9,896,183</u>
Operating Expenses:			
Personal Services	738,990	472,580	1,426,464
Contractual Services	460,598	542,955	8,623,538
Materials and Supplies	72,573	35,133	26,640
Depreciation	90,528	109,134	680,611
Total Operating Expenses	<u>1,362,689</u>	<u>1,159,802</u>	<u>10,757,253</u>
Operating Income (Loss)	314,572	714,975	(861,070)
Nonoperating Revenue (Expenses):			
Investment Earnings	0	319,277	0
Interest Expense	(10,677)	(535,510)	0
Gain on Investment in Joint Venture	0	0	47,551
Total Nonoperating Revenues (Expenses)	<u>(10,677)</u>	<u>(216,233)</u>	<u>47,551</u>
Income (Loss) Before Transfers	303,895	498,742	(813,519)
Transfers In	300,000	0	0
Transfers Out	(393,820)	(99,921)	(424,433)
Change in Net Assets	210,075	398,821	(1,237,952)
Net Assets Beginning of Year	<u>7,255,299</u>	<u>5,316,222</u>	<u>10,881,915</u>
Net Assets End of Year	<u>\$ 7,465,374</u>	<u>\$ 5,715,043</u>	<u>\$ 9,643,963</u>

Change in Net Assets - Total Enterprise Funds

Adjustment to reflect the consolidation of internal service fund activities related to the enterprise funds.

Change in Net Assets - Business-type Activities

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Refuse	Cable	Total	Governmental Activities - Internal Service Funds
\$ 302,064	\$ 0	\$ 302,064	\$ 0
0	0	447,456	0
384,434	10,891	13,216,390	231,004
0	0	179,700	0
<u>686,498</u>	<u>10,891</u>	<u>14,145,610</u>	<u>231,004</u>
213,503	0	2,851,537	108,974
278,866	0	9,905,957	16,335
17,740	0	152,086	93,245
54,433	2,790	937,496	5,165
<u>564,542</u>	<u>2,790</u>	<u>13,847,076</u>	<u>223,719</u>
121,956	8,101	298,534	7,285
0	0	319,277	0
0	0	(546,187)	0
0	0	47,551	0
<u>0</u>	<u>0</u>	<u>(179,359)</u>	<u>0</u>
121,956	8,101	119,175	7,285
9,900	0	309,900	0
(150,557)	0	(1,068,731)	(5,000)
(18,701)	8,101	(639,656)	2,285
<u>995,484</u>	<u>63,933</u>	<u>24,512,853</u>	<u>294,317</u>
<u>\$ 976,783</u>	<u>\$ 72,034</u>	<u>23,873,197</u>	<u>\$ 296,602</u>
		(639,656)	
		(24,928)	
		<u>\$ (664,584)</u>	

CITY OF OBERLIN, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Electric
<u>Cash Flows from Operating Activities:</u>			
Cash Received from Customers	\$1,737,702	\$1,951,383	\$9,537,559
Cash Payments for Goods and Services	(563,480)	(531,723)	(8,605,333)
Cash Payments to Employees	(718,827)	(461,203)	(1,403,727)
Net Cash Provided (Used) by Operating Activities	<u>455,395</u>	<u>958,457</u>	<u>(471,501)</u>
<u>Cash Flows from Noncapital Financing Activities:</u>			
Transfers In from Other Funds	300,000	0	0
Transfers Out to Other Funds	(393,820)	(99,921)	(424,433)
Advances In from Other Funds	0	0	0
Net Cash Used by Noncapital Financing Activities	<u>(93,820)</u>	<u>(99,921)</u>	<u>(424,433)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>			
Acquisition and Construction of Assets	(30,473)	(43,416)	(177,167)
Principal Paid on Mortgage Revenue Bonds	0	(255,000)	0
Principal Paid on Ohio Water Development Authority Loans	(162,629)	(290,994)	0
Interest Paid on All Debt	(10,677)	(532,355)	0
Net Cash Used for Capital and Related Financing Activities	<u>(203,779)</u>	<u>(1,121,765)</u>	<u>(177,167)</u>
<u>Cash Flows from Investing Activities:</u>			
Sale of Investments	254,510	513,182	2,070,021
Receipts of Interest	0	321,788	7,007
Net Cash Provided by Investing Activities	<u>254,510</u>	<u>834,970</u>	<u>2,077,028</u>
Net Increase (Decrease) in Cash and Cash Equivalents	412,306	571,741	1,003,927
Cash and Cash Equivalents at Beginning of Year	1,210	6,510	3,844
Cash and Cash Equivalents at End of Year	<u>\$413,516</u>	<u>\$578,251</u>	<u>\$1,007,771</u>

CITY OF OBERLIN, OHIO

Refuse	Cable	Totals	Governmental Activities Internal Service Funds
\$702,382	\$10,891	\$13,939,917	\$231,004
(291,571)	0	(9,992,107)	(95,887)
(211,371)	0	(2,795,128)	(107,734)
199,440	10,891	1,152,682	27,383
9,900	0	309,900	0
(150,557)	0	(1,068,731)	(5,000)
0	0	0	4,814
(140,657)	0	(758,831)	(186)
0	0	(251,056)	(65,295)
0	0	(255,000)	0
0	0	(453,623)	0
0	0	(543,032)	0
0	0	(1,502,711)	(65,295)
0	0	2,837,713	0
0	0	328,795	0
0	0	3,166,508	0
58,783	10,891	2,057,648	(38,098)
703,340	48,136	763,040	90,289
<u>\$762,123</u>	<u>\$59,027</u>	<u>\$2,820,688</u>	<u>\$52,191</u>

(Continued)

CITY OF OBERLIN, OHIO

Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Electric
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>			
<u>Provided by Operating Activities:</u>			
Operating Income (Loss)	\$314,572	\$714,975	(\$861,070)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	90,528	109,134	680,611
Changes in Assets and Liabilities:			
Decrease (Increase) in Accounts Receivable	60,441	76,606	(178,924)
Increase in Intergovernmental Receivable	0	0	(179,700)
Decrease (Increase) in Inventory	(3,657)	21,767	52,226
Decrease (Increase) in Prepaid Items	(2,827)	369	(603)
Increase (Decrease) in Accounts Payable	(23,825)	24,229	(211,364)
Increase in Contracts Payable	0	0	205,735
Increase in Accrued			
Wages and Benefits	12,243	5,077	20,854
Increase in Deferred Revenue	0	0	0
Increase in			
Compensated Absences	7,920	6,300	734
Total Adjustments	140,823	243,482	389,569
Net Cash Provided (Used) by Operating Activities	\$455,395	\$958,457	(\$471,501)

Schedule of Noncash Investing, Capital and Financing Activities:

As of December 31, 2005, the Electric Fund had outstanding liabilities of \$135,749 for the purchase of certain capital assets.

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Refuse	Cable	Totals	Governmental Activities Internal Service Funds
\$121,956	\$8,101	\$298,534	\$7,285
54,433	2,790	937,496	5,165
14,022	0	(27,855)	0
0	0	(179,700)	0
0	0	70,336	11,067
(552)	0	(3,613)	(1,771)
5,587	0	(205,373)	4,397
0	0	205,735	0
1,604	0	39,778	784
1,862	0	1,862	0
528	0	15,482	456
<u>77,484</u>	<u>2,790</u>	<u>854,148</u>	<u>20,098</u>
<u>\$199,440</u>	<u>\$10,891</u>	<u>\$1,152,682</u>	<u>\$27,383</u>

CITY OF OBERLIN, OHIO

Statement of Net Assets
Fiduciary Funds
December 31, 2005

	Private Purpose Trust	
	Unclaimed Monies Fund	Agency
Assets:		
Cash and Cash Equivalents	\$ 12,959	\$ 222,983
Total Assets	<u>12,959</u>	<u>222,983</u>
Liabilities:		
Due to Others	12,959	222,983
Total Liabilities	<u>\$ 12,959</u>	<u>\$ 222,983</u>

See accompanying notes to the basic financial statements

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The City gained city status in 1951 and is a home rule municipal corporation under the laws of the State of Ohio. The City operates under a council-city manager form of government and provides the following services as authorized by the charter: public safety, public services, public utilities and recreation. Educational 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.

A. Reporting Entity

The accompanying basic financial statements comply with the provisions of the GASB Statement No. 14, "*The Financial Reporting Entity*," in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, agencies, boards and commissions that are part of the primary government, which include the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance and other governmental services. In addition, the City owns and operates a water treatment and distribution system, a wastewater treatment and collection system, an electric distribution system, and provides refuse collection services, all of which are reported as enterprise funds.

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 payments for the Library to retire its outstanding debt.

1. Joint Ventures with Equity Interest

Ohio Municipal Electric Generation Agency Joint Venture 1 (Omega JV-1) - The City is a participant with twenty-one subdivisions within the State of Ohio in a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis. The Omega JV-1 was created for that purpose. The Omega JV-1 is managed by AMP-Ohio, which acts as the joint venture's agent. See Note 17 "Joint Ventures."

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (Continued)

1. Joint Ventures with Equity Interest (Continued)

Ohio Municipal Electric Generation Agency Joint Venture 2 (Omega JV-2) - The City is a participant with thirty-six subdivisions within the State of Ohio in a joint venture to provide supplemental reserve electric power to the participants on a cooperative basis. The Omega JV-2 was created for that purpose. The Omega JV-2 is managed by AMP-Ohio which acts as the joint venture's agent. See Note 17 "Joint Ventures."

Ohio Municipal Electric Generation Agency Joint Venture 5 (Omega JV-5) - The City is a participant with forty-two subdivisions within the State of Ohio in a joint venture to construct a hydroelectric plant and associated transmission facilities in West Virginia on the Ohio River at the Belleville Locks and Dam and receive electricity from its operation. The Omega JV-5 was created for that purpose. See Note 17 "Joint Ventures."

B. Basis of Presentation - Fund Accounting

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the basic financial statements. The following fund types are used by the City:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed. The acquisition, use and balances of the City's expendable financial resources and the related current liabilities (except those accounted for in the proprietary funds) are accounted for through governmental funds. The measurement focus is upon determination of "financial flow" (sources, uses and balances of financial resources). The following are the City's major governmental funds:

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

Income Tax Fund - To account for financial resources used for the major capital projects undertaken by the City.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation - Fund Accounting (Continued)

Proprietary Funds

All proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, whereby the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds are:

Water Fund – This fund is used to account for the operation of the City's water service.

Sewer Fund – This fund is used to account for the operation of the City's sanitary sewer service.

Electric Fund – To account for the operation of the City's electric generation and distribution service.

Refuse Fund – To account for the operation of the City's trash collection service.

Cable Fund – To account for the operation of the City's cable programming service.

Internal Service Funds - These 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, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations or other governments and therefore not available to support the City's own programs. The City's only trust fund is a private purpose trust that accounts for unclaimed monies. The agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operation. These funds operate on an accrual basis of accounting.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities. The internal service funds are eliminated to avoid “doubling up” revenues and expenses; however, the interfund services provided and used are not eliminated in the process of consolidation.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements – Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation – Financial Statements (Continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

D. Basis of Accounting

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds, expendable trust and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the modified accrual basis when the exchange takes place and the resources are available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. Revenue from income taxes is recognized in the period in which the income is earned and is available. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied and the revenue is available. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Revenue considered susceptible to accrual at year end includes income taxes withheld by employers, interest on investments, state levied locally shared taxes (including motor vehicle license fees and local government assistance). Income taxes other than those withheld by employers, licenses, permits, charges for service and other miscellaneous revenues are recorded as revenue when received in cash because generally this revenue is not measurable until received.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Special assessment installments, including related accrued interest which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes, which are measurable at December 31, 2005 but are not intended to finance 2005 operations, and delinquent property taxes whose availability is indeterminate, are recorded as deferred revenue as further described in Note 6 "Taxes".

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds and the nonexpendable trust fund. Revenues are recognized when they are earned and expenses recognized when incurred.

Pursuant to GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989 to its business-type activities and enterprise funds.

E. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental and expendable trust funds are required to be reported. The primary level of budgetary control is between categories within each department. Budgetary modifications may be made between categories by ordinance of the City Council.

1. Tax Budget

The Director of Finance and the City Manager submit an annual tax budget for the following fiscal year to City Council by July 15 for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2005.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund and category level, the legal level of control. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified by the County Budget Commission. The allocation of appropriations among fund and category level may be modified during the year by an ordinance of City Council. During 2005, several supplemental appropriations were necessary to budget the use of contingency funds, intergovernmental grant proceeds and capital improvement projects. Administrative control is maintained through the establishment of more detailed line-item budgets. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results with the final budget, including all amendments and modifications.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying basic financial statements.

5. Lapsing of Appropriations

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 subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for certain transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on a cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. On the budgetary basis investment earnings are recognized when realized, whereas on a GAAP basis unrealized gains and losses are recognized when investments are adjusted to fair value.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Process (Continued)

6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

	Net Change In Fund Balance
	General Fund
GAAP Basis (as reported)	\$538,925
Increase (Decrease):	
Accrued Revenues at December 31, 2005 received during 2006	(1,237,465)
Accrued Revenues at December 31, 2004 received during 2005	1,014,860
Accrued Expenditures at December 31, 2005 paid during 2006	359,974
Accrued Expenditures at December 31, 2004 paid during 2005	(261,253)
2004 Prepays for 2005	61,954
2005 Prepays for 2006	(67,161)
2004 Adjustment to Fair Value	(14,026)
2005 Adjustment to Fair Value	(3,013)
Outstanding Encumbrances	(215,885)
Budget Basis	\$176,910

F. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits, repurchase agreements, the State Treasury Asset Reserve (STAR Ohio) and certificates of deposit with original maturity dates of three months or less. The STAR Ohio is considered an investment for purposes of GASB Statement No. 3, but it is reported as a cash equivalent in the basic financial statements because it is a highly liquid instrument which is readily convertible to cash. The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. Restricted assets are comprised of the Electric and Sewer Bond Reserve fund balances held by the City. For purposes of the statement of cash flows, the proprietary funds' shares of equity in pooled certificates of deposit are considered to be cash equivalents. See Note 5, "Cash, Cash Equivalents and Investments."

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Investments

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. The City allocates interest among certain funds based upon City ordinance. In accordance with GASB Statement No. 31, “*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*”, the City records all its investments at fair value except for nonparticipating investment contracts (certificates of deposit) which are reported at cost, which approximates fair value. All investments are considered, including those with a maturity of one year or less, and included in the calculation of the change in fair value. Fair value is determined by quoted market prices. See Note 5, “Cash, Cash Equivalents and Investments.”

The City has invested funds in the STAR Ohio during 2005. 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, 2005.

H. Inventory

Inventory is stated at cost (first-in, first-out) in the governmental funds and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental funds when purchased and as expenses in the proprietary funds when used.

I. Capital Assets and Depreciation

Capital assets are defined by the City as assets with an initial, individual cost of more than \$2,000.

1. Property, Plant and Equipment - Governmental Activities

Governmental activities capital assets are those not directly related to the business type funds. These generally are acquired or constructed for governmental activities and are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years). These assets are reported in the Governmental Activities column of the Government-wide Statement of Net Assets, but they are not reported in the fund financial statements. All infrastructure acquired prior to the implementation of GASB Statement No. 34, “*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*”, have been reported.

CITY OF OBERLIN, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Capital Assets and Depreciation (Continued)

2. Property, Plant and Equipment – Business Type Activities

Contributed capital assets are recorded at fair market value at the date received. Capital assets include land, buildings, building improvements, machinery, equipment and infrastructure. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significant number of years. Examples of infrastructure include roads, bridges, streets and sidewalks, drainage systems and lighting systems. Estimated historical costs for governmental activities capital asset values were initially determined by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. For certain capital assets, the estimates were arrived at by indexing estimated current costs back to the estimated year of acquisition.

Property, plant and equipment acquired by the proprietary funds are stated at cost (or estimated historical cost), including interest capitalized during construction and architectural and engineering fees where applicable. Contributed capital assets are recorded at fair market value at the date received. These assets are reported in both the Business-Type Activities column of the Government-wide Statement of Net Assets and in the respective funds.

3. Depreciation

All capital assets are depreciated, excluding land. Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Governmental and Business-Type Activities Estimated Lives (in years)
Buildings	25 - 40
Improvements other than Buildings/Infrastructure	10 - 50
Vehicles	5 - 10
Machinery, Equipment, Furniture and Fixtures	5 - 20

CITY OF OBERLIN, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Long-Term Obligations

Long-term liabilities are being repaid from the following funds:

<u>Obligation</u>	<u>Fund</u>
General Obligation Bonds	General Obligation Bond Retirement Fund
Mortgage Revenue Bonds	Sewer Fund
Special Assessment Bonds with Governmental Commitment	Special Assessment Bond Retirement Fund
OWDA Loans	Water Fund Sewer Fund
Compensated Absences	General Fund Street Construction, Maintenance, and Repair Fund County Recycling Fund Electric Fund Water Fund Sewer Fund Refuse Fund Garage Fund

K. Compensated Absences

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 appropriate authority. 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.

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," the City records a liability for vacation time and sick leave when the obligation is attributable to services previously rendered or to rights that vest or accumulate, and when payment of the obligation is probable and can be reasonably determined.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Compensated Absences (Continued)

For governmental funds, that portion of unpaid compensated absences that has matured and is expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." In the government-wide statement of net assets, "Compensated Absences Payable" is recorded within the "Due within one year" account and the long-term portion of the liability is recorded within the "Due in more than one year" account. Compensated absences are expensed in the proprietary funds when earned and the related liability is reported within the fund.

L. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction of improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

M. Pensions

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

N. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. In addition, interfund transfers between governmental funds are eliminated for reporting on the government-wide financial statements. Only transfers between governmental activities and business-type activities are reported on the statement of activities.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Reservations of Fund Balance

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for inventories, debt service, prepaids, endowments and encumbered amounts not accrued at year end.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Q. Operating Revenues and Expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water treatment and distribution, wastewater collection and treatment, collection of solid waste refuse, electric production and distribution and cable programming. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS

A. Changes in Accounting Principles

For fiscal year 2005, the City has implemented GASB Statement No. 40, “*Deposit and Investment Risk Disclosures*” and GASB Statement No. 42, “*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*”

GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks, credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 2 – CHANGES IN ACCOUNTING PRINCIPLES AND PRIOR PERIOD ADJUSTMENTS
(Continued)

A. Changes in Accounting Principles (Continued)

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. This statement also clarifies and establishes accounting revenues for insurance recoveries.

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the City, however additional note disclosure can be found in Note 5, "Cash, Cash Equivalents and Investments." The implementation of GASB Statement No. 42 did not have an effect on the financial statements of the City.

B. Prior Period Adjustments

Prior Period Adjustments - During the year ended December 31, 2004, infrastructure acquired prior to the implementation of GASB Statement No. 34, "*Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*", was added to the City’s capital asset value. This required an inventory to be taken on the City’s infrastructure items. The adjustment had the following effect on net assets for the City’s proprietary funds:

	Net assets at December 31, 2004 (as reported)	Restate Capital Assets	Net assets at December 31, 2004 (as restated)
Water Fund	\$5,020,081	\$2,235,218	\$7,255,299
Sewer Fund	5,442,620	(126,398)	5,316,222
Electric Fund	13,247,386	(2,365,471)	10,881,915
Refuse Fund	995,484	0	995,484
Cable Fund	70,377	(6,444)	63,933
Total	<u>\$24,775,948</u>	<u>(\$263,095)</u>	<u>\$24,512,853</u>

The changes to the beginning net assets had the following effect on the governmental activities and the business-type activities beginning net assets:

	Governmental Activities	Business Type Activities
Net Assets December 31, 2004 as reported	\$14,649,958	\$24,902,843
Adjustments:		
Restate Capital Assets	<u>19,435,090</u>	<u>(263,095)</u>
Net Assets December 31, 2004 as restated	<u>\$34,085,048</u>	<u>\$24,639,748</u>

CITY OF OBERLIN, OHIO

*Notes to the Basic Financial Statements
For the Year Ended December 31, 2005*

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets of governmental funds as reported in the government-wide statement of net assets. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Other long-term assets not available to pay for current-period expenditures:

Delinquent Property Tax Revenue	\$24,934
Shared Revenues	463,486
Interest Revenues	13,704
All Other Revenue	303,850
Special Assessment Revenue	4,412
	<u>\$810,386</u>

Long-Term liabilities not reported in the funds:

General Obligation Bonds Payable	(\$830,080)
Special Assessment Bonds Payable	(305,296)
Capital Leases Payable	(228,241)
Accrued Interest on Long-Term Debt	(10,559)
Compensated Absences Payable	(518,101)
	<u>(\$1,892,277)</u>

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CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government – wide statement of activities. The following is a detailed listing of those reconciling items that are net adjustments or a combination of several transactions:

Amount by which capital outlay exceeded depreciation in the current period:

Capital Outlay	\$1,812,494
Depreciation Expense	<u>(1,433,614)</u>
	\$378,880

Governmental revenues not reported in the funds:

Decrease in Delinquent Property Tax	(\$48,516)
Increase in Shared Revenue	111,471
Decrease in Interest Revenue	(8,800)
Increase in All Other Revenue	112,819
Decrease in Special Assessment Revenue	<u>(876)</u>
	\$166,098

Expenses not requiring the use of current financial resources:

Increase in Compensated Absences Payable	(\$46,382)
Decrease in supplies inventory	<u>(681)</u>
	(\$47,063)

NOTE 4 - COMPLIANCE AND ACCOUNTABILITY

Fund Deficits - The fund deficits at December 31, 2005 of \$21,336 in the Downtown Revitalization Grant Fund, (special revenue fund), \$81,618 in the Sidewalk Improvement Fund and \$72,736 in the OPWC Grants 2005 Fund (capital projects funds) arise from the recognition of expenditures on the modified accrual basis of accounting which are greater than expenditures recognized on the budgetary basis. The deficits do not exist under the cash basis of accounting. The General Fund provides transfers when cash is required, not when accruals occur.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash resources of several individual funds are combined to form a pool of cash and investments. In addition, investments are separately held by a number of individual funds.

Statutes require the classification of funds held by the City into three categories:

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current five year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;
- Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and

CITY OF OBERLIN, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

- The State Treasury Asset Reserve of Ohio (STAR Ohio).
- Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred and eighty days from the date of purchase in an amount not to exceed twenty-five percent of the interim moneys available for investment at any one time.

A. Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. The City's policy is to place deposits with major local banks. All deposits, except for deposits held by fiscal and escrow agents or trustees, are collateralized with eligible securities. The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 105% of the carrying value of all public deposits held by each institution. Collateral permitted by Chapter 135 of the ORC is limited to obligations of the United States and its agencies, bonds of any state, and bonds and other obligations of any country, municipal corporation or other legally constituted authority of the State of Ohio, or any instrumentality of such county, municipal corporation or other authority. Such collateral, as permitted by Chapter 135 of the ORC is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at a Federal Reserve Bank in the name of the City.

At year end the carrying amount of the City's deposits was \$19,413,380 and the bank balance was \$19,202,472. Federal depository insurance covered \$200,000 of the bank balance. All remaining deposits were classified as Category 3.

	<u>Balance</u>
Uninsured and collateralized with securities held by the pledging institution's trust department not in the City's name	<u>\$19,002,472</u>
Total Balance	<u><u>\$19,002,472</u></u>

CITY OF OBERLIN, OHIO

***Notes to the Basic Financial Statements
For the Year Ended December 31, 2005***

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments

The City's investments at December 31, 2005 are summarized below:

	<u>Fair Value</u>	<u>Credit Rating</u>	<u>Investment Maturities (in Years)</u>	
			<u>less than 1</u>	<u>1-3</u>
U.S. Treasury Bill	\$323,748	N/A	\$323,748	\$0
FHLB	992,913	AAA ¹ / Aaa ²	992,913	0
STAR Ohio	220,678	AAAm ¹	220,678	0
Total Investments	<u>\$1,537,339</u>		<u>\$1,537,339</u>	<u>\$0</u>

¹ Standard & Poor's

² Moody's Investor Service

Interest Rate Risk – The Ohio Revised Code generally limits security purchases to those that mature within five years of settlement date.

Credit Risk – The City's investments in FHLB securities were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively.

Custodial Credit Risk – The City's investments in FHLB securities in the amount of \$992,913 is uninsured and unregistered with securities held by the counterparty's trust department or agent in the City's name.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in one issuer.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 5 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

C. Reconciliation of Cash, Cash Equivalents and Investments

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as a cash equivalent. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$5,983,947	\$14,966,772
Certificates of Deposit (with maturities of more than 3 months)	13,650,111	(13,650,111)
Investments:		
STAR Ohio	(220,678)	220,678
Per GASB Statement No. 3	<u>\$19,413,380</u>	<u>\$1,537,339</u>

* Includes cash on hand.

NOTE 6 - TAXES

A. Property Taxes

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 2005 were levied after October 1, 2004 on assessed values as of January 1, 2004, the lien date. Assessed values were established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 2001. Real property taxes are payable annually or semi-annually. If paid annually, payment is due January 31; if paid semi-annually, the first payment is due by February and the remainder payable in July. Under certain circumstances, state statute permits later payment dates to be established.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25% of its true value. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually, the first payment is due April 30; the remainder payable by September 20.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 6 - TAXES (Continued)

A. Property Taxes (Continued)

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property described previously.

The Lorain County Treasurer collects property taxes on behalf of all taxing districts in the County including the City of Oberlin. The County Auditor periodically remits to the City its portion of the taxes collected.

The full tax rate for the City's operations for the year ended December 31, 2005 was \$11.11 per \$1,000 of assessed value. The assessed value upon which the 2005 receipts were based was \$112,097,015. This amount constitutes \$103,983,740 in real property assessed value, \$1,138,480 in public utility assessed value and \$6,974,795 in tangible personal property assessed value.

Ohio law prohibits taxation of property from all taxing authorities in excess of 1% of assessed value without a vote of the people. Under current procedures, the City's share is 1.111% (11.11 mills) of assessed value.

B. Income Tax

The City levies a tax of 1.9% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of 1.9% of taxable salaries, wages, commissions and other compensation.

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

NOTE 7 - RECEIVABLES

Receivables at December 31, 2005 consisted of taxes, interest, accounts receivable, special assessments, interfund loans, loans and intergovernmental receivables arising from shared revenues.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 8 - INTERFUND BALANCES

Individual interfund balances at December 31, 2005 are as follows:

Fund	Interfund Loans Receivable	Interfund Loans Payable
Governmental Activities:		
General Fund	\$387,737	\$0
Other Governmental Funds	0	382,923
Total Governmental Activities	<u>387,737</u>	<u>382,923</u>
Business-Type Activities:		
Internal Service Funds	0	4,814
Totals	<u>\$387,737</u>	<u>\$387,737</u>

NOTE 9 - TRANSFERS

Following is a summary of transfers in and out for all funds for 2005:

Fund	Transfer In	Transfer Out
Governmental Activities:		
General Fund	\$604,138	\$246,600
Income Tax Fund	104,000	244,693
Other Governmental Funds	768,480	221,494
Total Governmental Transfers	<u>1,476,618</u>	<u>712,787</u>
Business Type Activities:		
Water Fund	300,000	393,820
Sewer Fund	0	99,921
Electric Fund	0	424,433
Refuse Fund	9,900	150,557
Internal Service Fund	0	5,000
Total Business Type Transfers	<u>309,900</u>	<u>1,073,731</u>
Totals	<u>\$1,786,518</u>	<u>\$1,786,518</u>

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 10 - CAPITAL ASSETS

A. Governmental Activities Capital Assets

Summary by category of changes in governmental activities capital assets at December 31, 2005:

<i>Historical Cost:</i>	Restated			December 31,
Class	December 31, 2004	Additions	Deletions	2005
<i>Capital assets not being depreciated:</i>				
Land	\$2,121,614	\$0	\$0	\$2,121,614
Construction in Progress	290,179	849,177	(135,292)	1,004,064
Subtotal	2,411,793	849,177	(135,292)	3,125,678
<i>Capital assets being depreciated:</i>				
Buildings	3,685,149	0	0	3,685,149
Improvements Other than Buildings	0	218,890	0	218,890
Machinery and Equipment	3,926,168	221,070	(31,971)	4,115,267
Infrastructure	30,644,283	713,326	0	31,357,609
Subtotal	38,255,600	1,153,286	(31,971)	39,376,915
Total Cost	<u>\$40,667,393</u>	<u>\$2,002,463</u>	<u>(\$167,263)</u>	<u>\$42,502,593</u>
 <i>Accumulated Depreciation:</i>				
Class	Restated			December 31,
Class	December 31, 2004	Additions	Deletions	2005
Buildings	(\$945,576)	(\$91,793)	\$0	(\$1,037,369)
Improvements Other than Buildings	0	(5,472)	0	(5,472)
Machinery and Equipment	(2,518,462)	(329,136)	16,126	(2,831,472)
Infrastructure	(10,573,004)	(1,007,213)	0	(11,580,217)
Total Depreciation	<u>(\$14,037,042)</u>	<u>(\$1,433,614) *</u>	<u>\$16,126</u>	<u>(\$15,454,530)</u>
<i>Net Value:</i>	<u>\$26,630,351</u>			<u>\$27,048,063</u>

* Depreciation expenses were charged to governmental functions as follows:

Security of Persons and Property	\$248,430
Public Health and Welfare Services	5,760
Leisure Time Activities	89,789
Community Environment	840
Transportation	1,047,459
General Government	41,336
Total Depreciation Expense	<u>\$1,433,614</u>

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 10 - CAPITAL ASSETS (continued)

B. Business-Type Activities Capital Assets

Summary by Category at December 31, 2005:

<i>Historical Cost:</i>	Restated December 31, 2004	Additions	Deletions	December 31, 2005
Class				
<i>Capital assets not being depreciated:</i>				
Land	\$175,773	\$0	\$0	\$175,773
Construction in Progress	3,472,358	17,659	0	3,490,017
Subtotal	3,648,131	17,659	0	3,665,790
<i>Capital assets being depreciated:</i>				
Buildings	456,309	5,500	0	461,809
Infrastructure	9,206,258	0	0	9,206,258
Improvements Other than Buildings	115,198	0	0	115,198
Machinery and Equipment	12,907,827	363,646	(21,395)	13,250,078
Subtotal	22,685,592	369,146	(21,395)	23,033,343
Total Cost	<u>\$26,333,723</u>	<u>\$386,805</u>	<u>(\$21,395)</u>	<u>\$26,699,133</u>
<i>Accumulated Depreciation:</i>				
Class	Restated December 31, 2004	Additions	Deletions	December 31, 2005
Buildings	(\$396,988)	(\$1,880)	\$0	(\$398,868)
Infrastructure	(1,717,542)	(102,824)	0	(1,820,366)
Improvements Other than Buildings	(2,304)	(4,608)	0	(6,912)
Machinery and Equipment	(8,615,803)	(828,184)	21,395	(9,422,592)
Total Depreciation	<u>(\$10,732,637)</u>	<u>(\$937,496)</u>	<u>\$21,395</u>	<u>(\$11,648,738)</u>
<i>Net Value:</i>	<u>\$15,601,086</u>			<u>\$15,050,395</u>

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 11 – DEFINED BENEFIT PENSION PLANS

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

A. Ohio Public Employees Retirement System (the "Ohio PERS")

The following information was provided by the Ohio PERS to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in one of the three pension plans administered by the Ohio PERS: the Traditional Pension Plan (TP), the Member-Directed Plan (MD), and the Combined Plan (CO). The TP Plan is a cost-sharing multiple employer defined benefit pension plan. The MD Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20% per year). Under the MD Plan members accumulate retirement assets equal to the value of member and (vested) employer contributions plus any investment earnings thereon. The CO Plan is a cost-sharing multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan. Under the CO Plan employer contributions are invested by the retirement system to provide a formula retirement benefit similar in nature to the TP Plan. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the MD Plan.

The Ohio PERS provides retirement, disability, survivor and death benefits and annual cost-of-living adjustments to members of the TP Plan and CO Plan. Members of the MD Plan do not qualify for ancillary benefits, including postemployment health care benefits. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Ohio Public Employees Retirement System issues a stand-alone financial report that includes financial statements and required supplementary information for the Ohio PERS. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6701 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. For 2005, employee and employer contribution rates were consistent across all three plans (TP, MD and CO). The employee contribution rate is 8.5%. The 2005 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.55% to fund the pension and 4.0% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the Ohio PERS for the years ending December 31, 2005, 2004, and 2003 were \$600,924, \$585,223 and \$543,617, respectively, which were equal to the required contributions for each year.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

A. Ohio Public Employees Retirement System (the “Ohio PERS”) (Continued)

The Ohio PERS provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit under the TP and CO plans and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. The health care coverage provided by the Ohio PERS is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to the Ohio PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the Ohio PERS. The portion of the 2005 employer contribution rate (identified above) that was used to fund health care for the year 2005 was 4.0% of covered payroll, which amounted to \$177,395.

The significant actuarial assumptions and calculations relating to postemployment health care benefits were based on the Ohio Public Employees Retirement System's latest actuarial review performed as of December 31, 2004. 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. 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 investment assets. The investment assumption rate for 2004 was 8.0%. An annual increase of 4.0% 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 4.0% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4.0% annually plus an additional factor ranging from 1% to 6% for the next 8 years. In subsequent years (9 and beyond) health care costs were assumed to increase 4% (the projected wage inflation rate).

Benefits are advanced-funded on an actuarially determined basis. The number of active contributing participants for the TP and CO Plans was 376,109. The actuarial value of the Ohio PERS net assets available for OPEB at December 31, 2004 is \$10.8 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$29.5 billion and \$18.7 billion, respectively.

The Health Care Preservation Plan (HCPP) adopted by the OPERS Retirement Board on September 9, 2004, will be effective January 1, 2007. In addition to the HCPP, Ohio PERS has taken additional action to improve the solvency of the Health Care Fund in 2005 by creating a separate investment pool for health care assets. As an additional component of the HCPP, member and employer contribution rates increased as of January 1, 2006, which will allow additional funds to be allocated to the health care plan

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 11 – DEFINED BENEFIT PENSION PLANS (Continued)

B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)

All City full-time police officers and full-time firefighters participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0% respectively for police officers and firefighters. The City's contributions to the OP&F Fund for the years ending December 31, 2005, 2004, and 2003 were \$238,282, \$223,694 and \$217,983, respectively, which were equal to the required contributions for each year.

The OP&F Fund provides postemployment health care coverage to any person who received or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child 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 on a full-time or two-thirds basis. The health care coverage provided by the OP&F Fund is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$67,762 representing 7.75% of covered payroll for police and \$21,888 representing 7.75% of covered payroll for fire. Health care funding and accounting was on a pay-as-you-go basis. 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. Beginning in 2001, all retirees and survivors have monthly health care contributions. As of December 31, 2004, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 13,812 for police and 10,528 for firefighters. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 2004 were \$102,173,796, which was net of member contributions of \$55,665,341.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 12 – COMPENSATED ABSENCES

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement, is accrued to the extent that it is considered to be probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees who are eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees who are expected to become eligible in the future to receive such payments.

At December 31, 2005, the City's accumulated, unpaid compensated absences amounted to \$779,923, of which \$522,836 is recorded as a liability of the Governmental Activities and \$257,087 is recorded as a liability of the Business-Type Activities.

NOTE 13 - NOTES PAYABLE

The Ohio Revised Code provides that notes including renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period.

	Maturity Date	Balance December 31, 2004	Issued (Retired)	Balance December 31, 2005
Capital Projects Notes Payable:				
2.13% Court Improvement	2004	\$220,000	(\$220,000)	\$0
3.21% Court Improvement	2005	0	145,000	145,000
Total Notes Payable		<u>\$220,000</u>	<u>(\$75,000)</u>	<u>\$145,000</u>

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 14 - LONG-TERM DEBT

Long-term debt of the City at December 31, 2005 was as follows:

Date Purchased	Interest Rate	Description	Maturity Date	Balance December 31, 2004	Additions	(Reductions)	Balance December 31, 2005	Amount Due Within One Year
Business-Type Activities:								
Mortgage Revenue Bond:								
1983	Variable	Wastewater Treatment Plant Improvements	2008	\$1,100,000	\$0	(\$255,000)	\$845,000	\$270,000
Ohio Water Development Authority Loans (OWDA):								
1973	5.500%	OWDA - Project #1207	2015	278,085	0	(19,067)	259,018	20,115
1990	7.770%	OWDA - Project #1807	2016	1,029,552	0	(58,700)	970,852	63,261
1995	6.560%	OWDA - Project #2072	2005	162,629	0	(162,629)	0	0
2000	3.630%	OWDA - Project #3293	2013	2,082,171	0	(213,227)	1,868,944	221,037
Total Ohio Water Development Authority Loans				3,552,437	0	(453,623)	3,098,814	304,413
Payable to Joint Venture				436,848	276,788	(22,610)	691,026	0
Compensated Absences				241,605	257,087	(241,605)	257,087	89,020
Total Business-Type Long-Term Debt				<u>\$5,330,890</u>	<u>\$533,875</u>	<u>(\$972,838)</u>	<u>\$4,891,927</u>	<u>\$663,433</u>
Governmental Activities:								
Special Assessment Bonds:								
1999	8.750%	Downtown Improvements	2005	\$16,281	\$0	(\$16,281)	\$0	\$0
2000	5.500%	Recreation Facility	2014	339,218	0	(33,922)	305,296	33,922
Total Special Assessment Bonds (with Governmental Commitment)				355,499	0	(50,203)	305,296	33,922
General Obligation Bonds:								
1989	6.875%	Library Bond	2009	605,000	0	(105,000)	500,000	110,000
1999	8.750%	Downtown Improvements	2005	13,719	0	(13,719)	0	0
2003	3.140%	Recreation Facility	2008	433,476	0	(103,396)	330,080	106,643
Total General Obligation Bonds				1,052,195	0	(222,115)	830,080	216,643
Capital Leases				299,162	0	(70,921)	228,241	90,769
Compensated Absences				475,998	522,836	(475,998)	522,836	219,028
Total Governmental Activities Long-Term Debt				<u>\$2,182,854</u>	<u>\$522,836</u>	<u>(\$819,237)</u>	<u>\$1,886,453</u>	<u>\$560,362</u>

The principal amount of the City's special assessment debt outstanding at December 31, 2005, \$305,296, is general obligation debt (backed by the full faith and credit of the City) that is being retired with the proceeds from special assessments levied against benefited property owners. The City is obligated to repay the debt irrespective of the amount of special assessments collected from property owners. The fund balance of \$275,487 in the Special Assessment Bond Retirement Fund at December 31, 2005 is reserved for the retirement of outstanding special assessment bonds.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 14 - LONG-TERM DEBT (Continued)

A. Future Long-Term Financing Requirements

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 2005 follows:

Years	General Obligation Bonds		Mortgage Revenue Bonds		Special Assessment Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$216,643	\$44,740	\$270,000	\$43,966	\$33,922	\$16,324
2007	229,991	33,828	280,000	30,196	33,922	14,459
2008	243,446	22,124	295,000	20,376	33,922	12,594
2009	140,000	9,626	0	0	33,922	10,728
2010	0	0	0	0	33,922	8,862
2011-2015	0	0	0	0	135,686	16,791
2016-2018	0	0	0	0	0	0
Totals	<u>\$830,080</u>	<u>\$110,318</u>	<u>\$845,000</u>	<u>\$94,538</u>	<u>\$305,296</u>	<u>\$79,758</u>

Years	OWDA Loans		Capital Leases		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$300,474	\$159,477	\$90,769	\$6,517	\$911,808	\$271,024
2007	314,448	145,503	93,975	5,238	952,336	229,224
2008	329,154	130,794	43,497	1,914	945,019	187,802
2009	344,640	115,310	0	0	518,562	135,664
2010	360,951	98,999	0	0	394,873	107,861
2011-2015	1,384,777	233,611	0	0	1,520,463	250,402
2016-2018	64,370	4,978	0	0	64,370	4,978
Totals	<u>\$3,098,814</u>	<u>\$888,672</u>	<u>\$228,241</u>	<u>\$13,669</u>	<u>\$5,307,431</u>	<u>\$1,186,955</u>

NOTE 15 - 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, Inc., (BORMA, Inc.); 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. The City pays annual premiums to the Public Entities Pool (PEP) and other insurance carriers for general liability and property 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.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 15 - RISK MANAGEMENT (Continued)

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll plus administrative costs. The rate is determined based on accident history of the North Central Ohio Municipal Finance Officers Association. The City also pays unemployment claims to the State of Ohio as incurred.

There has been no significant reduction in insurance coverages compared to the prior year. In addition, settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

NOTE 16 - CONTINGENCIES

The City is a party to various legal proceedings, which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

NOTE 17 - JOINT VENTURES

A. Ohio Municipal Electric Generation Agency Joint Venture 1 (Omega JV-1)

The City is a participant with twenty-one subdivisions within the State of Ohio in this joint venture to provide supplemental reserve electric power to the participants on a cooperative basis. On dissolution of the joint venture, the net assets of Omega JV-1 will be shared by the participants on a percentage basis. The Omega JV-1 is managed by AMP-Ohio which acts as the joint venture's agent. The participants are obligated by the agreement to remit monthly costs incurred from using electricity generated by the joint venture. The City's net investment and its share of the operating results of Omega JV-1 are reported in the City's electric fund (an enterprise fund). The City's equity interest in Omega JV-1 was \$25,139 at December 31, 2005. Complete financial statements for Omega JV-1 can be obtained from AMP-Ohio or from the City's Finance Director.

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (Omega JV-2)

The City of Oberlin is a Financing Participant and an Owner Participant with percentages of liability and ownership of 1.16% and .91% respectively and shares participation with thirty-five other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency (OMEGA JV2). Owner Participants own undivided interests, as tenants in common, in the OMEGA JV2 Project in the amount of their respective Project Shares. Purchaser Participants agree to purchase the output associated with their respective Project shares, ownership of which is held in trust for such Purchaser Participants.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 17 - JOINT VENTURES (Continued)

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (Omega JV-2) (Continued)

Pursuant to the OMEGA JV2 Agreement, the participants jointly undertook as either Financing Participants or Non-Financing Participants and as either Owner Participants or Purchaser Participants, the acquisition, construction, and equipping of OMEGA JV2, including such portions of OMEGA JV2 as have been acquired, constructed or equipped by AMP-Ohio and to pay or incur the costs of the same in accordance with the JV-2 Agreement.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Distributive Generation Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating and Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. Under the terms of the Agreement, each Financing Participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV2 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005 the City of Oberlin has met their debt coverage obligation.

OMEGA JV2 was created to provide additional sources of reliable, reasonably priced electric power and energy when prices are high or during times of generation shortages or transmission constraints, and to improve the reliability and economic status of the participants' respective municipal electric utility system. The Project consists of 138.65 MW of distributed generation of which 134.081MW is the participants entitlement and 4.569MW are held in reserve. On dissolution of OMEGA JV2, the net assets will be shared by the participants on a percentage of ownership basis. OMEGA JV2 is managed by AMP-Ohio, which acts as the joint venture's agent. During 2001, AMP-Ohio issued \$50,260,000 of 20 year fixed rate bonds on behalf of the Financing Participants of OMEGA JV2. The net proceeds of the bond issue of \$45,904,712 were contributed to OMEGA JV2. The City's net obligation for these bonds at December 31, 2005 was \$417,324 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected). The City's net investment and its share of operating results of OMEGA JV2 are reported in the City's electric fund (an enterprise fund). The City's net investment in OMEGA JV2 was \$403,788 at December 31, 2005. Complete financial statements for OMEGA JV2 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 17 - JOINT VENTURES (Continued)

B. Ohio Municipal Electric Generation Agency Joint Venture 2 (Omega JV-2) (Continued)

The thirty-six participating subdivisions and their respective ownership shares at December 31, 2005 are:

Municipality	Percent Ownership	Kw Entitlement	Municipality	Percent Ownership	Kw Entitlement
Hamilton	23.87%	32,000	Grafton	0.79%	1,056
Bowling Green	14.32%	19,198	Brewster	0.75%	1,000
Niles	11.49%	15,400	Monroeville	0.57%	764
Cuyahoga Falls	7.46%	10,000	Milan	0.55%	737
Wadsworth	5.81%	7,784	Oak Harbor	0.55%	737
Painesville	5.22%	7,000	Elmore	0.27%	364
Dover	5.22%	7,000	Jackson Center	0.22%	300
Galion	4.29%	5,753	Napoleon	0.20%	264
Amherst	3.73%	5,000	Lodi	0.16%	218
St. Mary's	2.98%	4,000	Genoa	0.15%	199
Montpelier	2.98%	4,000	Pemberville	0.15%	197
Shelby	1.89%	2,536	Lucas	0.12%	161
Versailles	1.24%	1,660	South Vienna	0.09%	123
Edgerton	1.09%	1,460	Bradner	0.09%	119
Yellow Springs	1.05%	1,408	Woodville	0.06%	81
Oberlin	0.91%	1,217	Haskins	0.05%	73
Pioneer	0.86%	1,158	Arcanum	0.03%	44
Seville	0.79%	1,066	Custar	0.00%	4
	<u>95.20%</u>	<u>127,640</u>		<u>4.80%</u>	<u>6,441</u>
			Grand Total	<u>100.00%</u>	<u>134,081</u>

The City's liability for the bonds are disclosed below:

Years	Principal	Interest	Total Debt Service
2006	22,467	23,890	46,357
2007	23,394	22,991	46,385
2008	24,552	21,821	46,373
2009	25,768	20,594	46,362
2010	27,042	19,306	46,348
2011-2020	<u>360,285</u>	<u>103,343</u>	<u>463,628</u>
Total Gross Liability	<u>483,508</u>	<u>211,945</u>	<u>695,453</u>
Less: Amounts Held in Reserve	<u>(66,184)</u>		
Net Obligation	<u>417,324</u>		

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 17 - JOINT VENTURES (Continued)

C. Ohio Municipal Electric Generation Agency Joint Venture 5 (Omega JV-5)

The City of Oberlin is a Financing Participant with an ownership percentage of 3.02%, and shares participation with forty-one other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 5 (OMEGA JV5). Financing Participants own undivided interests, as tenants in common, without right of partition in the OMEGA JV5 Project.

Pursuant to the OMEGA JV5 Agreement, the participants jointly undertook as Financing Participants, the acquisition, construction, and equipping of OMEGA JV5, including such portions of OMEGA JV5 as have been acquired, constructed or equipped by AMP-Ohio.

OMEGA JV5 was created to construct a 42 Megawatt (MW) run-of-the-river hydroelectric plant (including 40MW of backup generation) and associated transmission facilities (on the Ohio River near Bellville, West Virginia Locks and Dam) and sells electricity from its operations to OMEGA JV5 participants.

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Beneficial Interest Certificates (Certificates) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV5, the net assets will be shared by the financing participants on a percentage of ownership basis. Under the terms of the Agreement each participant is to fix, charge and collect rates, fees and charges at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV5 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005 Oberlin has met their debt coverage obligation.

The Agreement provides that the failure of any JV5 participant to make any payment due by the due date thereof constitutes a default. In the event of a default, OMEGA JV5 may take certain actions including the termination of a defaulting JV5 Participant's entitlement to Project Power. Each Participant may purchase a pro rata share of the defaulting JV5 Participant's entitlement to Project Power, which together with the share of the other non-defaulting JV5 Participants, is equal to the defaulting JV5 Participant's ownership share of the Project, in kilowatts ("Step Up Power") provided that the sum of any such increases shall not exceed, without consent of the non-defaulting JV5 Participant, an accumulated maximum kilowatts equal to 25% of such non-defaulting JV5 Participant's ownership share of the project prior to any such increases.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 17 - JOINT VENTURES (Continued)

C. Ohio Municipal Electric Generation Agency Joint Venture 5 (Omega JV-5) (Continued)

OMEGA JV5 is managed by AMP-Ohio, which acts as the joint venture's agent. During 1993 and 2001 AMP-Ohio issued \$153,415,000 and \$13,899,981 respectively of 30 year fixed rate Beneficial Interest Certificates (Certificates) on behalf of the Financing Participants of OMEGA JV5. The 2001 Certificates accrete to a value of \$56,125,000 on February 15, 2030. The net proceeds of the bond issues were used to construct the OMEGA JV5 Project. On February 17, 2004 the 1993 Certificates were refunded by issuing 2004 Beneficial Interest Refunding Certificates in the amount of \$116,910,000, which resulted in a savings to the membership of \$34,951,833 from the periods 2005 through 2024.

The City's net investment and its share of operating results of OMEGA JV5 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV5 was \$280,314 at December 31, 2005. Complete financial statements for OMEGA JV5 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

D. Ohio Municipal Electric Generation Agency Joint Venture 6 (Omega JV-6)

The City of Oberlin is a Financing Participant with an ownership percentage of 3.47%, and shares participation with nine other subdivisions within the State of Ohio in the Ohio Municipal Electric Generation Agency Joint Venture 6 (OMEGA JV6). Financing Participants, after consideration of the potential risks and benefits can choose to be Owner Participants or Purchaser Participants. Owner Participants own undivided interests, as tenants in common in the Project in the amount of its Project Share. Purchaser Participants purchase the Project Power associated with its Project Share.

Pursuant to the OMEGA Joint Venture JV6 Agreement (Agreement), the participants agree jointly to plan, acquire, construct, operate and maintain the Project, and hereby agree, to pay jointly for the electric power, energy and other services associated with the Project.

OMEGA JV6 was created to construct four (4) wind turbines near Bowling Green Ohio. Each turbine has a nominal capacity of 1.8 MW and sells electricity from its operations to OMEGA JV6 Participants.

CITY OF OBERLIN, OHIO

Notes to the Basic Financial Statements For the Year Ended December 31, 2005

NOTE 17 - JOINT VENTURES (Continued)

D. Ohio Municipal Electric Generation Agency Joint Venture 6 (Omega JV-6) (Continued)

Pursuant to the Agreement each participant has an obligation to pay its share of debt service on the Adjustable Rate Revenue Bonds (Bonds) from the revenues of its electric system, subject only to the prior payment of Operating & Maintenance Expenses (O&M) of each participant's System, and shall be on a parity with any outstanding and future senior electric system revenue bonds, notes or other indebtedness payable from any revenues of the System. On dissolution of OMEGA JV6, any excess funds shall be refunded to the Non-Financing Participants in proportion to each Participant's Project Share and to Financing Participant's respective obligations first by credit against the Financing Participant's respective obligations. Any other excess funds shall be paid to the Participants in proportion to their respective Project Shares. Under the terms of the Agreement each financing participant is to fix, charge and collect rates, fees, charges, including other available funds, at least sufficient in order to maintain a debt coverage ratio equal to 110% of the sum of OMEGA JV6 debt service and any other outstanding senior lien electric system revenue obligations. As of December 31, 2005 Oberlin has met their debt coverage obligation.

The Agreement provides that the failure of any JV6 participant to make any payment due by the due date constitutes a default. In the event of a default and one in which the defaulting Participant failed to cure its default as provided for in the Agreement, the remaining participants would acquire the defaulting Participant's interest in the project and assume responsibility for the associated payments on a pro rata basis up to a maximum amount equal to 25% of such non-defaulting Participant's Project share ("Step Up Power").

OMEGA JV6 is managed by American Municipal Power-Ohio, Inc., which acts as the joint venture's agent. On July 30, 2004 AMP-Ohio issued \$9,861,000 adjustable rate bonds that mature on August 15, 2019. The net proceeds of the bond issues were used to construct the OMEGA JV6 Project. The City's net obligation for these bonds at December 31, 2005 was \$276,788 (Including amounts withheld for Debt Service Reserve, amounts held in the Bond Fund, previous billings to members, interest payable and debt service paid and collected).

The City's net investment and its share of operating results of OMEGA JV6 are reported in the City's electric fund (an enterprise fund). The City's net investment to date in OMEGA JV6 was \$305,813 at December 31, 2005. Complete financial statements for OMEGA JV6 may be obtained from AMP-Ohio or from the State Auditor's website at www.auditor.state.oh.us.

CITY OF OBERLIN, OHIO

**Notes to the Basic Financial Statements
For the Year Ended December 31, 2005**

NOTE 17 - JOINT VENTURES (Continued)

D. Ohio Municipal Electric Generation Agency Joint Venture 6 (Omega JV-6) (Continued)

The ten participating subdivisions and their respective ownership shares at December 31, 2005 are:

<u>Participant</u>	<u>KW Amount</u>	<u>% of Financing</u>
Bowling Green	4,100	56.94%
Cuyahoga Falls	1,800	25.00%
Napoleon	300	4.17%
Oberlin	250	3.47%
Wadsworth	250	3.47%
Edgeton	100	1.39%
Elmore	100	1.39%
Montpelier	100	1.39%
Pioneer	100	1.39%
Monroeville	100	1.39%
Total	<u>7,200</u>	<u>100.00%</u>

The City's liability for the bonds are disclosed below:

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2006	24,000	9,897	33,897
2007	22,000	11,629	33,629
2008	20,000	13,461	33,461
2009	20,000	13,707	33,707
2010	20,000	13,753	33,753
2011-2019	214,218	65,211	279,429
Total Gross Liability	<u>320,218</u>	<u>127,658</u>	<u>447,876</u>
Less: Amounts Held in Reserve	<u>(43,430)</u>		
Net Obligation	<u>276,788</u>		

NOTE 18 – SUBSEQUENT EVENT

On April 21, 2006 the City issued \$4,200,000 in one year Bond Anticipation Notes. The note proceeds will be used, in conjunction with City capital reserves, to construct a new Service Center Complex.



**Auditor of State
Betty Montgomery**

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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
AUGUST 29, 2006**