



**Auditor of State
Betty Montgomery**

CITY OF MEDINA
MEDINA COUNTY

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**Auditor of State
Betty Montgomery**

INDEPENDENT ACCOUNTANTS' REPORT

City of Medina
Medina County
132 North Elmwood Avenue
Medina, Ohio 44256

To the City Council:

We have audited the accompanying general purpose financial statements of the City of Medina, Medina County, Ohio, (the City) as of and for the year ended December 31, 2002. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

Because of the inadequacy of accounting records, we were unable to obtain sufficient evidence regarding the amounts at which property and equipment are recorded in the General Fixed Assets Account Group and Enterprise Funds in the accompanying combined balance sheet at December 31, 2002 (stated at \$19,088,061 and \$27,814,466, respectively), or the amount of depreciation expense recorded in the Enterprise Fund for the year then ended (stated at \$871,779). We were unable to satisfy ourselves regarding property and equipment amounts by other auditing procedures.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to satisfy ourselves about fixed asset amounts and related depreciation, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of Medina, Medina County, Ohio, as of December 31, 2002, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 4, the City reclassified the recreation center activity to an Enterprise Fund and waterline construction activity to the Water Enterprise Fund.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2003 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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The accompanying Schedule of Receipts and Expenditures of Federal Awards is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. We subjected this information to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

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

Betty Montgomery
Auditor of State

November 3, 2003

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CITY OF MEDINA - MEDINA COUNTY

Combined Balance Sheet

All Fund Types and Account Groups

December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Assets and Other Debits			
Assets			
Current Assets:			
Equity in Pooled Cash and Investments	\$ 921,282	\$ 7,155,466	\$ 2,405,615
Cash with Fiscal Agent	0	0	22,546
Receivables:			
Trade (net of allowances)	0	0	0
Interfund Notes	0	0	0
Taxes	1,586,762	1,750,378	266,553
Delinquent Special Assessments	0	0	13,023
Intergovernmental	702,600	697,936	8,741
Employee	0	165,295	0
Other	50,006	0	0
Assessments	0	0	3,220,784
Inventory of Supplies	99,789	0	0
Due from Other Funds	321,302	0	0
Prepaid Items	32,896	860	0
Total Current Assets	<u>3,714,637</u>	<u>9,769,935</u>	<u>5,937,262</u>
Fixed Assets:			
Land and improvements	0	0	0
Buildings	0	0	0
Improvements (other than buildings)	0	0	0
Machinery and Equipment	0	0	0
Vehicles	0	0	0
Accumulated Depreciation	0	0	0
Construction in Progress	0	0	0
Total Fixed Assets	<u>0</u>	<u>0</u>	<u>0</u>
Other Debits:			
Amount Available In Debt Service Funds	0	0	0
Amount to be Provided for Retirement of General Long Term Obligations	0	0	0
Total Other Debits	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Other Debits	<u>\$ 3,714,637</u>	<u>\$ 9,769,935</u>	<u>\$ 5,937,262</u>

See accompanying notes to the general purpose financial statement.

Proprietary Fund Types			Fiduciary Fund Types	Account Groups			Totals (Memorandum Only)
Capital Projects	Internal Service	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations		
\$ 5,183,108	\$ 2,140	\$ 7,087,839	\$ 1,252,569	\$ 0	\$ 0	\$	\$ 24,008,019
0	0	0	0	0	0		22,546
102,153	0	962,741	0	0	0		1,064,894
0	0	2,232,474	0	0	0		2,232,474
62,352	0	0	0	0	0		3,666,045
0	0	0	0	0	0		13,023
0	0	0	0	0	0		1,409,277
0	0	0	0	0	0		165,295
0	0	0	5,862	0	0		55,868
0	0	0	0	0	0		3,220,784
0	0	3,355	0	0	0		103,144
25,315	0	0	0	0	0		346,617
0	0	465	0	0	0		34,221
5,372,928	2,140	10,286,874	1,258,431	0	0		36,342,207
0	0	3,065,568	0	1,021,974	0		4,087,542
0	0	2,902,821	0	4,520,431	0		7,423,252
0	0	23,298,372	0	4,961,299	0		28,259,671
0	0	2,276,650	0	4,753,184	0		7,029,834
0	0	2,030,545	0	3,831,173	0		5,861,718
0	0	(13,929,284)	0	0	0		(13,929,284)
0	0	8,169,794	0	0	0		8,169,794
0	0	27,814,466	0	19,088,061	0		46,902,527
0	0	0	0	0	2,492,907		2,492,907
0	0	0	0	0	4,005,541		4,005,541
0	0	0	0	0	6,498,448		6,498,448
\$ 5,372,928	\$ 2,140	\$ 38,101,340	\$ 1,258,431	\$ 19,088,061	\$ 6,498,448	\$	\$ 89,743,182

(continued)

CITY OF MEDINA - MEDINA COUNTY

Combined Balance Sheet

All Fund Types and Account Groups

December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Liabilities and Fund Equity			
Liabilities:			
Accounts Payable	\$ 96,059	\$ 306,684	\$ 0
Interfund Notes Payable	20,000	1,045,927	0
Accrued Salaries, Wages and Benefits	319,720	561,445	0
Matured Interest Payable	0	0	22,546
Due to Other Funds	0	137,580	0
Undistributed Monies	0	0	0
Deferred Revenue	1,761,577	1,982,468	3,421,809
General Obligation Bonds Payable	0	0	0
Special Assessment Bonds Payable	0	0	0
Notes Payable	0	126,091	0
Total Liabilities	2,197,356	4,160,195	3,444,355
Fund Equity:			
Investment in General Fixed Assets	0	0	0
Contributed Capital	0	0	0
Retained Earnings:			
Unreserved	0	0	0
Fund Balance:			
Reserved for Encumbrances	521,005	495,606	0
Reserved for Endowments	0	0	0
Reserved for Inventory	99,789	0	0
Reserved for Prepaid Items	32,896	860	0
Reserved for Debt Services:			
Principal and Interest	0	0	2,492,907
Unreserved:			
Undesignated	863,591	5,113,274	0
Total Fund Equity/(Deficit)	1,517,281	5,609,740	2,492,907
Total Liabilities and Fund Equity	\$ 3,714,637	\$ 9,769,935	\$ 5,937,262

See accompanying notes to the general purpose financial statement.

Proprietary Fund Types			Fiduciary Fund Types	Account Groups			Totals (Memorandum Only)
Capital Projects	Internal Service	Enterprise	Trust and Agency	General Fixed Assets	General Long-Term Obligations		
\$ 24,005	\$ 0	\$ 412,780	\$ 10,271	\$ 0	\$ 0	\$	\$ 849,799
171,483	0	995,064	0	0	0		2,232,474
0	0	321,253	0	0	616,448		1,818,866
0	0	0	0	0	0		22,546
0	3,000	186,874	19,163	0	0		346,617
0	0	0	551,812	0	0		551,812
0	0	0	0	0	0		7,165,854
0	0	20,500,000	0	0	3,401,000		23,901,000
0	0	81,000	0	0	2,481,000		2,562,000
0	0	0	0	0	0		126,091
195,488	3,000	22,496,971	581,246	0	6,498,448		39,577,059
0	0	0	0	19,088,061	0		19,088,061
0	0	1,474,266	0	0	0		1,474,266
0	(860)	14,130,103	0	0	0		14,129,243
452,697	0	0	420,105	0	0		1,889,413
0	0	0	240,153	0	0		240,153
0	0	0	0	0	0		99,789
0	0	0	0	0	0		33,756
0	0	0	0	0	0		2,492,907
4,724,743	0	0	16,927	0	0		10,718,535
5,177,440	(860)	15,604,369	677,185	19,088,061	0		50,166,123
\$ 5,372,928	\$ 2,140	\$ 38,101,340	\$ 1,258,431	\$ 19,088,061	\$ 6,498,448	\$	\$ 89,743,182

CITY OF MEDINA - MEDINA COUNTY

*Combined Statement of Revenues, Expenditures,
and Changes in Fund Balances*
All Governmental Fund Types and Expendable Trust Funds

For the Year Ended December 31, 2002

	Governmental Fund Types		
	General	Special Revenue	Debt Service
Revenues:			
Local Taxes	\$ 2,282,728	\$ 3,372,369	\$ 585,772
Fees, License and Permits	1,407,202	1,003,524	0
Intergovernmental	1,491,972	1,493,384	17,627
Special Assessments	0	0	362,450
Charges for Services	160,174	177,560	0
Interest Income	392,565	364	0
Developer Deposits	0	0	0
Other	52,201	49,683	0
Total Revenues	5,786,842	6,096,884	965,849
Expenditures:			
Current:			
General Government	3,092,819	758,313	8,037
Security	2,907,812	2,899,998	0
Public Health	81,958	0	0
Community Development	491,176	3,381	0
Transportation	0	850,555	0
Basic Utility	0	101,752	0
Leisure Time	0	519,526	0
Capital Outlay	216,416	472,646	0
Debt Service:			
Principal Retirement	0	96,201	365,137
Interest	1,960	40,867	201,082
Total Expenditures	6,792,141	5,743,239	574,256
Excess of Revenues Over (Under) Expenditures	(1,005,299)	353,645	391,593
Other Financing Sources (Uses):			
Proceeds of Bonds	0	0	0
Other Financing Sources	9,773	18,412	36,664
Other Financing Uses	(2,146)	(4,477)	0
Operating Transfers In	0	55,627	0
Operating Transfers Out	(55,627)	0	0
Total Other Financing Sources (Uses)	(48,000)	69,562	36,664
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,053,299)	423,207	428,257
Fund Balances at Beginning of Year (As Restated)	2,619,037	5,186,533	2,064,650
Decrease in Reserve for Inventory	(48,457)	0	0
Fund Balances at End of Year	\$ 1,517,281	\$ 5,609,740	\$ 2,492,907

See accompanying notes to the general purpose financial statement.

Fiduciary Fund Type		
Capital Projects	Expendable Trust	Totals (Memorandum Only)
\$ 963,340	\$ 0	\$ 7,204,209
0	0	2,410,726
0	0	3,002,983
661	0	363,111
553,735	0	891,469
25,315	258	418,502
0	192,344	192,344
180	1,526	103,590
<u>1,543,231</u>	<u>194,128</u>	<u>14,586,934</u>
0	6,101	3,865,270
0	0	5,807,810
3,055	0	85,013
0	0	494,557
114,337	0	964,892
650,051	0	751,803
0	0	519,526
400	7,660	697,122
0	0	461,338
1,334	0	245,243
<u>769,177</u>	<u>13,761</u>	<u>13,892,574</u>
774,054	180,367	694,360
1,700,000	0	1,700,000
0	0	64,849
(23)	(47,588)	(54,234)
0	0	55,627
0	0	(55,627)
<u>1,699,977</u>	<u>(47,588)</u>	<u>1,710,615</u>
2,474,031	132,779	2,404,975
2,703,409	304,253	12,877,882
0	0	(48,457)
<u>\$ 5,177,440</u>	<u>\$ 437,032</u>	<u>\$ 15,234,400</u>

CITY OF MEDINA - MEDINA COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual*

All Governmental Fund Types and Expendable Trust Funds

For the Year Ended December 31, 2002

General Fund			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Local Taxes	\$ 2,218,928	\$ 2,402,803	\$ 183,875
Fees, License and Permits	1,390,909	1,450,065	59,156
Intergovernmental	1,461,132	1,417,790	(43,342)
Special Assessments	0	0	0
Charges for Services	135,795	139,316	3,521
Investment Income	217,474	237,534	20,060
Developer Deposits	0	0	0
Other	43,182	46,223	3,041
Total Revenues	5,467,420	5,693,731	226,311
Expenditures:			
Current:			
General Government	3,261,219	3,066,259	194,960
Security	3,302,711	3,141,012	161,699
Public Health	148,386	125,723	22,663
Community Development	569,963	503,506	66,457
Transportation	0	0	0
Basic Utility	0	0	0
Leisure Time	0	0	0
Capital Outlay	179,768	216,416	(36,648)
Debt Service			
Principal Retirement	20,000	20,000	0
Interest	1,960	1,960	0
Total Expenditures	7,484,007	7,074,876	409,131
Excess of Revenue Over (Under) Expenditures	(2,016,587)	(1,381,145)	635,442
Other Financing Sources (Uses):			
Proceeds of Bonds	0	0	0
Proceeds of Notes	0	0	0
Other Financing Sources	9,220	9,773	553
Other Financing Uses	(17,702)	(2,146)	15,556
Advances In	0	4,200	4,200
Advances Out	(47,643)	(4,956)	42,687
Operating Transfers In	0	0	0
Operating Transfers Out	(28,107)	(55,627)	(27,520)
Other Financing Sources (Uses)	(84,232)	(48,756)	35,476
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,100,819)	(1,429,901)	670,918
Fund Balances at Beginning of Year (As Restated)	1,152,768	1,152,768	0
Prior Year's Encumbrances Appropriated	660,524	660,524	0
Fund Balances at End of Year	\$ (287,527)	\$ 383,391	\$ 670,918

See accompanying notes to the general purpose financial statement.

Special Revenue Funds			Debt Service Fund		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 3,870,704	\$ 3,988,306	\$ 117,602	\$ 503,429	\$ 498,480	\$ (4,949)
1,017,635	1,026,687	9,052	0	0	0
1,341,727	1,476,654	134,927	0	17,627	17,627
0	0	0	8,842	362,450	353,608
174,600	165,096	(9,504)	362,450	0	(362,450)
35,410	35,410	0	0	0	0
0	0	0	0	0	0
63,086	64,758	1,672	0	0	0
6,503,162	6,756,911	253,749	874,721	878,557	3,836
1,780,058	1,188,951	591,107	12,500	8,037	4,463
3,895,664	3,121,050	774,614	0	0	0
0	0	0	0	0	0
556,950	127,308	429,642	0	0	0
1,092,584	1,066,015	26,569	0	0	0
101,636	94,473	7,163	0	0	0
1,042,030	860,385	181,645	0	0	0
784,793	472,646	312,147	0	0	0
1,125,284	1,125,284	0	365,137	365,137	0
40,867	40,867	0	201,083	201,083	0
10,419,866	8,096,979	2,322,887	578,720	574,257	4,463
(3,916,704)	(1,340,068)	2,576,636	296,001	304,300	8,299
0	0	0	0	0	0
1,407,091	1,407,063	(28)	0	0	0
11,056	18,412	7,356	36,664	36,664	0
(4,752)	(4,487)	265	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
17,599	55,627	38,028	0	0	0
0	0	0	0	0	0
1,430,994	1,476,615	45,621	36,664	36,664	0
(2,485,710)	136,547	2,622,257	332,665	340,964	8,299
5,062,395	5,062,395	0	2,064,656	2,064,656	0
1,158,176	1,158,176	0	0	0	0
\$ 3,734,861	\$ 6,357,118	\$ 2,622,257	\$ 2,397,321	\$ 2,405,620	\$ 8,299

CITY OF MEDINA - MEDINA COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual*
All Governmental Fund Types and Expendable Trust Funds

For the Year Ended December 31, 2002

Capital Projects Funds			
	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Local Taxes	\$ 900,988	\$ 900,988	\$ 0
Fees, License and Permits	0	0	0
Intergovernmental	0	0	0
Special Assessments	0	661	661
Charges for Services	549,500	550,216	716
Investment Income	65,761	65,761	0
Developer Deposits	0	0	0
Other	0	180	180
Total Revenues	1,516,249	1,517,806	1,557
Expenditures:			
Current:			
General Government	85,982	14,700	71,282
Security	0	0	0
Public Health	7,500	3,055	4,445
Community Development	0	0	0
Transportation	731,100	512,482	218,618
Basic Utility	781,825	729,166	52,659
Leisure Time	23,500	3,759	19,741
Capital Outlay	3,770,274	516	3,769,758
Debt Service			
Principal Retirement	42,735	42,735	0
Interest	1,334	1,334	0
Total Expenditures	5,444,250	1,307,747	4,136,503
Excess of Revenue Over (Under) Expenditures	(3,928,001)	210,059	4,138,060
Other Financing Sources (Uses):			
Proceeds of Bonds	1,700,000	1,700,000	0
Proceeds of Notes	172,144	172,144	0
Other Financing Sources	0	0	0
Other Financing Uses	(600)	(23)	577
Advances In	0	0	0
Advances Out	0	0	0
Operating Transfers In	0	0	0
Operating Transfers Out	0	0	0
Other Financing Sources (Uses)	1,871,544	1,872,121	577
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,056,457)	2,082,180	4,138,637
Fund Balances at Beginning of Year (As Restated)	3,191,267	3,191,267	0
Prior Year's Encumbrances Appropriated	560,946	560,946	0
Fund Balances at End of Year	\$ 1,695,756	\$ 5,834,393	\$ 4,138,637

See accompanying notes to the general purpose financial statement.

Expendable Trust Funds			Totals (Memorandum Only)		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 7,494,049	\$ 7,790,577	\$ 296,528
0	0	0	2,408,544	2,476,752	68,208
0	0	0	2,802,859	2,912,071	109,212
0	0	0	8,842	363,111	354,269
0	0	0	1,222,345	854,628	(367,717)
258	258	0	318,903	338,963	20,060
205,000	192,344	(12,656)	205,000	192,344	(12,656)
1,525	1,526	1	107,793	112,687	4,894
206,783	194,128	(12,655)	14,568,335	15,041,133	472,798
5,057	6,458	(1,401)	5,144,816	4,284,405	860,411
0	0	0	7,198,375	6,262,062	936,313
1,175	0	1,175	157,061	128,778	28,283
0	0	0	1,126,913	630,814	496,099
0	0	0	1,823,684	1,578,497	245,187
0	0	0	883,461	823,639	59,822
0	0	0	1,065,530	864,144	201,386
0	7,660	(7,660)	4,734,835	697,238	4,037,597
0	0	0	1,553,156	1,553,156	0
0	0	0	245,244	245,244	0
6,232	14,118	(7,886)	23,933,075	17,067,977	6,865,098
200,551	180,010	(20,541)	(9,364,740)	(2,026,844)	7,337,896
0	0	0	1,700,000	1,700,000	0
0	0	0	1,579,235	1,579,207	(28)
0	0	0	56,940	64,849	7,909
(492,107)	(467,693)	24,414	(515,161)	(474,349)	40,812
0	756	756	0	4,956	4,956
0	0	0	(47,643)	(4,956)	42,687
0	0	0	17,599	55,627	38,028
0	0	0	(28,107)	(55,627)	(27,520)
(492,107)	(466,937)	25,170	2,762,863	2,869,707	106,844
(291,556)	(286,927)	4,629	(6,601,877)	842,863	7,444,740
83,160	83,160	0	11,554,246	11,554,246	0
306,330	306,330	0	2,685,976	2,685,976	0
\$ 97,934	\$ 102,563	\$ 4,629	\$ 7,638,345	\$ 15,083,085	\$ 7,444,740

CITY OF MEDINA - MEDINA COUNTY

Combined Statement of Revenues, Expenses,
and Changes in Retained Earnings

All Proprietary Fund Types and Non-Expendable Trust Fund

For the Year Ended December 31, 2002

	Proprietary Fund Types		Fiduciary	Totals (Memorandum Only)
	Internal Service	Enterprise	Non-Expendable Trust	
Operating Revenue:				
Intergovernmental	\$ 0	\$ 329,936	\$ 0	\$ 329,936
Interest Income	0	0	76	76
Charges for Services	0	6,162,407	8,125	6,170,532
Other	0	34,865	0	34,865
Total Operating Revenues	0	6,527,208	8,201	6,535,409
Operating Expenses:				
Personal Services	0	2,470,156	0	2,470,156
Contractual Service	0	627,771	0	627,771
Materials and Supplies	0	2,221,711	0	2,221,711
Transportation	0	125,535	0	125,535
Depreciation	0	871,779	0	871,779
Total Operating Expenses	0	6,316,952	0	6,316,952
Operating Income (Loss)	0	210,256	8,201	218,457
Non-Operating Revenues (Expenses):				
Interest Income	0	43,431	0	43,431
Other Financing Sources	14,232	234	0	14,466
Other Financing Uses	(21,729)	(4,223)	(617)	(26,569)
Debt Service:				
Principal payments	0	(56,662)	0	(56,662)
Interest and fiscal charges	0	(935,832)	0	(935,832)
Total Non-Operating Revenues (Expenses)	(7,497)	(953,052)	(617)	(961,166)
Net Income (Loss)	(7,497)	(742,796)	7,584	(742,709)
Retained Earnings at Beginning of Year (As Restated)	6,637	14,872,899	232,569	15,112,105
Retained Earnings (Deficit) at End of Year	\$ (860)	\$ 14,130,103	\$ 240,153	\$ 14,369,396

See accompanying notes to the general purpose financial statement.

CITY OF MEDINA

Combined Statement of Cash Flows

All Proprietary Fund Types and Non-Expendable Trust Fund

For the Year Ended December 31, 2002

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Internal Service	Enterprise	Non-Expendable Trust	(Memorandum Only)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash Flows from Operating Activities				
Cash Received from Customers	\$ 0	\$ 5,292,543	\$ 4,314	\$ 5,296,857
Cash Payments for Goods and Services	0	(4,088,906)	0	(4,088,906)
Cash Payments for Employee Services and Benefit	0	(2,340,407)	0	(2,340,407)
<i>Net Cash Provided by (Used for) Operating Activities</i>	0	(1,136,770)	4,314	(1,132,456)
Cash Flows from Noncapital Financing Activities				
Other Financing Sources	14,232	234	0	14,466
Other Financing Uses	(21,729)	(4,223)	(617)	(26,569)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	(7,497)	(3,989)	(617)	(12,103)
Cash Flows from Capital and Related Financing Activities				
Proceeds from Bonds	0	7,015,000	0	7,015,000
Payments for Capital Acquisition	0	(4,337,600)	0	(4,337,600)
Principal Payments on Notes	0	(4,051,662)	0	(4,051,662)
Interest Paid on Bonds	0	(935,832)	0	(935,832)
<i>Net Cash Used for Capital and Related Financing Activities</i>	0	(2,310,094)	0	(2,310,094)
Cash Flows from Investing Activities:				
Interest on Investment	0	43,431	0	43,431
<i>Net Cash Provided by Investing Activities</i>	0	43,431	0	43,431
Net Increase (Decrease) in Cash and Cash Equivalent	(7,497)	(3,407,422)	3,697	(3,411,222)
Cash and Cash Equivalents at Beginning of Year	9,637	10,495,261	241,470	10,746,368
Cash and Cash Equivalents at End of Year	\$ 2,140	\$ 7,087,839	\$ 245,167	\$ 7,335,146
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities				
Operating Income (Loss)	\$ 0	\$ 210,256	\$ 8,201	\$ 218,457
Adjustments:				
Depreciation Expense	0	871,779	0	871,779
(Increase) Decrease in Assets				
Accounts Receivable	0	(69,495)	0	(69,495)
Interfund Notes Receivable	0	(1,266,363)	0	(1,266,363)
Intergovernmental Receivable	0	101,193	0	101,193
Prepays	0	(385)	0	(385)
Inventory	0	21,300	0	21,300
Increase (Decrease) in Liabilities				
Accounts Payable	0	(1,755,089)	0	(1,755,089)
Due to Other Funds	0	(129,779)	(3,887)	(133,666)
Accrued Salaries, Wages and Benefit	0	129,749	0	129,749
Interfund Payable	0	750,064	0	750,064
<i>Net Cash Provided by (Used for) Operating Activities</i>	\$ 0	\$ (1,136,770)	\$ 4,314	\$ (1,132,456)
RECONCILIATION OF FIDUCIARY FUND TYPE CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET:				
Non-Expendable Trust	\$ 245,167			
Expendable Trust	519,402			
Agency	488,000			
Cash and Cash Equivalents	<u>\$ 1,252,569</u>			

See accompanying notes to the general purpose financial statement.

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CITY OF MEDINA - MEDINA COUNTY

Notes to the General Purpose Financial Statements For the Year Ended December 31, 2002

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A.** *Description of the Reporting Entity* - The City was organized in 1952 as a political body and corporation established for the purpose of exercising the rights and privileges conveyed to it by the constitution of the State of Ohio. The City operates under a charter as a home-rule municipal corporation under the laws of the State of Ohio.

The reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements of the city are not misleading. The primary government consists of all funds, departments, boards and agencies, that are not legally separate from the City. For the City of Medina, this includes police and fire protection, emergency medical, parks and recreation, planning, zoning, street maintenance and repair, refuse collection and general administrative services.

Component units are legally separate organizations for which the city is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

Management believes the financial statements included in this report represent all of the funds of the City over which the City has the ability to exercise direct operating control.

B. Basis of Accounting

Governmental Funds - All governmental, expendable trust funds and agency funds are accounted for using a modified accrual basis of accounting. Under this basis, revenues are recognized in the accounting period during which they become measurable and available. Expenditures are recognized in the accounting period during which the fund liability is incurred, if measurable.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within thirty-one days of year end.

Non-exchange transactions, in which the City receives value without directly giving equal in return, include income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. (See Note 9) Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the

CITY OF MEDINA - MEDINA COUNTY

Notes to the General Purpose Financial Statements (Continued) For the Year Ended December 31, 2002

B. Basis of Accounting (continued)

resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non exchange transactions must also be available before it can be recognized.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes receivable and delinquent property taxes receivable are recorded and deferred until they become available. Long-term special assessment receivables are recorded for the total special assessment taxes to be received by the entity for the period of the assessment. Special assessment and delinquent special assessment receivables are recorded and deferred until they become available.

Other revenues, including licenses and permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition - The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Fund Types and Similar Trust Funds - All proprietary fund types and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Unbilled utility service receivables are recorded at each year end. Under the guidelines of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting", the City has elected not to apply Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989, to its proprietary activities.

C. Fund Accounting

The City maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

C. Fund Accounting (continued)

Governmental Funds (continued)

Debt Service Fund - To account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. According to governmental accounting principles, the Debt Service Fund accounts for the payment of long-term debt for governmental funds only. Under Ohio law, the Debt Service Fund might also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds.

Capital Projects Funds - To account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Proprietary Funds

Enterprise Funds - To account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

Internal Service Funds - To account for the financing of goods or services provided by one department or agency to other departments or agencies of the government and to other government units, on a cost reimbursement basis.

Fiduciary Funds

Trust and Agency Funds - To account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, and (c) Agency Funds.

D. 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 Appropriations Ordinance are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified. All funds, other than agency funds, are legally required to be budgeted and appropriated; only governmental funds are legally required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by resolution of the City Council.

Tax Budget - The Mayor presents the annual operating budget for the following fiscal year to City Council for consideration and passage in order for the adopted budget to be submitted to the County

CITY OF MEDINA - MEDINA COUNTY

Notes to the General Purpose Financial Statements (Continued) For the Year Ended December 31, 2002

D. Budgetary Process (continued)

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.

Estimated Resources - The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by October 1. As part of this certification, the City receives the official Certificate of Estimated Resources, which states the projected revenue of each 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 will 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 unencumbered cash balances at December 31 of the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amount in the final amended official Certificate of Estimated Resources issued for 2002.

Appropriations - A temporary Appropriation Ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 to March 31. An annual Appropriation Ordinance must be passed by April 1 of each year for the period January 1 to December 31. The Appropriation Ordinance affixes spending authority at the fund, department and object level. The Appropriation Ordinance may be amended during the year, as new information becomes available, provided that total fund appropriations do not exceed current estimated resources, as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of Council. During the year, several supplemental appropriation measures were passed. The budget figures which appear in the statement of budgetary comparisons represent the final appropriation amounts, including all amendments and modifications.

Encumbrances - As part of formal budgetary control, purchase orders, contracts and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance.

Lapsing of Appropriations - At the close of each 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 and need not be reappropriated.

Governmental Fund Budgets - "The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - All Governmental Fund Types and Expendable Trust Funds" is presented on the budgetary basis to provide a comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

D. Budgetary Process (continued)

- A. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- B. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- C. Outstanding year end encumbrances are treated as expenditures/expenses (budget) rather than as a reservation of fund balance for governmental fund types.
- D. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget) rather than as balance sheet transactions (GAAP basis).

The adjustments necessary to convert the results of operations for the year from the GAAP basis to the budget basis for the governmental funds are as follows:

**Excess of Revenues and Other Financing Sources
Over (Under) Expenditures and Other Financing Uses**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Expendable Trust</u>
GAAP Basis (as reported)	\$ (1,053,299)	\$ 423,207	\$ 428,257	\$ 2,474,031	\$ 132,779
Adjustments:					
Proceeds from notes	0	1,407,063	0	172,144	0
Revenue accruals	(88,911)	660,027	(87,292)	(25,425)	756
Expenditure accruals	276,524	(1,718,796)	(566,220)	(61,862)	(357)
Principal retirement for debt	0	96,201	365,137	0	0
Interest and fiscal charges for debt	0	40,867	201,082	0	0
Encumbrances	<u>(564,215)</u>	<u>(772,022)</u>	<u>0</u>	<u>(476,708)</u>	<u>(420,105)</u>
Budget basis	<u><u>\$ (1,429,901)</u></u>	<u><u>\$ 136,547</u></u>	<u><u>\$ 340,964</u></u>	<u><u>\$ 2,082,180</u></u>	<u><u>\$ (286,927)</u></u>

Proprietary Fund Budgets - Each proprietary fund has a budget adopted similar to and at the same time as the governmental funds. Proprietary funds are reported on a full accrual basis of accounting and decision makers are concerned with results of operations on GAAP basis for these funds. Proprietary budgetary statements are not required to be reported, therefore, budget versus actual statements on the budgetary basis of accounting are not presented for proprietary funds.

Fiduciary Fund Budgets - The City officials do not budget for fiduciary funds in a manner similar to the governmental funds. The City recognizes that the money in these funds are unavailable for the City operations and thus not projected. Therefore budget to actual financial statements are not presented.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

E. Investments and Inactive Funds

Investment procedures are restricted by the provisions of the Ohio Revised Code. Purchased investments are valued at cost and are neither charged when purchased nor credited at the time of redemption to their respective fund balances. Interest is recognized and recorded when earned. Interest revenue credited to the general fund during 2002 amounted to \$392,565, which includes \$80,802 assigned from other city funds. Equity in pooled cash and investments consists of certificates of deposits, repurchase agreements, and a money market checking account.

F. Accounts Receivable

All allowances for uncollectible accounts receivable represent estimates of uncollectible receivables of user charges within the enterprise funds. Taxes, intergovernmental, other receivables, and special assessments are deemed collectible in full by the City management.

G. Inventory

Inventory is valued at cost on a first-in, first-out basis. The costs of governmental fund type inventories are recorded as expenditures when purchased.

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the General Fixed Assets Account Group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date donated. The City has established a capitalization threshold for fixed assets at \$10,000.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated (in proprietary funds) over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems are not capitalized, as these assets are immovable and of value only to the government.

Assets in the general fixed assets account group are not depreciated. Depreciation of buildings, improvements other than buildings, machinery and equipment, and vehicles in the proprietary fund types is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

I. Fund Balances (governmental and fiduciary funds)

Fund balances are reserved for encumbrances, endowments, inventory and prepaid items. The fund balance in the debt service fund is reserved for the retirement of debt principal and interest.

J. Accumulated Unpaid Vacation and Sick Pay

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. An accrual for sick leave is made to the extent that it is probable that benefits will result in termination payments. The liability is an estimate based on the City's past experience of making termination payments.

In the governmental funds, the liability is recorded in the general long-term obligation account group. In the proprietary funds, the entire amount of unpaid compensated absences is recorded as a fund liability. The determinable short term and long term obligations for accumulated unpaid vacation and accumulated sick pay for the City as a whole totaled \$668,327 at December 31, 2002 and are included as accrued benefits in the accompanying financial statements.

K. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions are reported as transfers. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. During the year ended December 31, 2002, the City had the following transfer transactions:

	Transfers In	Transfers Out
	<u> </u>	<u> </u>
General Fund	\$ 0	\$ 55,627
Special Revenue	55,627	0
	<u> </u>	<u> </u>
Total	<u>\$ 55,627</u>	<u>\$ 55,627</u>

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

L. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

M. Cash Flows

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

NOTE 2 - COMPLIANCE AND ACCOUNTABILITY

A. Legal Compliance

The City did not certify the availability of funds for certain expenditures contrary to Ohio Revised Code 5705.41(D).

Contrary to Ohio Revised Code Section 5715.14, 5705.15, and 5705.16, the City failed to obtain approval from the tax commissioner and the court of common pleas prior to making expenditures from funds other than the general fund.

B. Fund Deficit

The City had a deficit retained earnings balance of \$860 in the internal service fund at year end. This deficit resulted from the recognition of accrued liabilities. The general fund is responsible to cover deficit fund balances by means of a transfer. However, this is done when cash is needed rather than when accruals occur.

The City also had a deficit retained earnings of \$556,213 in the recreation center fund at year end. This was a result of reversing illegal transfers that were originally made to this fund. The general fund is responsible to cover deficit fund balances by means of a transfer.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City maintains a cash and investment pool used by all funds. Each fund type's portion of this pool is displayed on the Combined Balance Sheet as "Equity in Pooled Cash and Investments."

Protection of the City's cash and investments is provided by the Federal Deposit Insurance Corporation as well as qualified securities pledged by the institution holding the assets. By law, financial institutions may establish a collateral pool to cover all public deposits. The face value of the pooled collateral must equal at least 110% of public funds deposited. Collateral is held by trustees including the Federal Reserve Bank and designated third party trustees of the financial institutions.

Legal Requirements. Statutes require the classification of monies held by the City into three categories which determines the type of investments which can be made.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 3 - DEPOSITS AND INVESTMENTS (continued)

Category 1 consists of "active" monies, those monies required to be kept in a "cash" or "near-cash" status for immediate use by the City. Such monies 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" monies, those monies are not required for use within the current two year period of designation of depositories. Inactive monies may be deposited or invested only as certificates of deposit maturing not later than the end of the current period of designation of depositories.

Category 3 consists of "interim" monies, those monies which are not needed for immediate use but which will be needed before the end of the current period of depositories. Interim monies may be invested or deposited in the following securities:

1. Bonds, notes, or other obligations of or guaranteed by the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency, or the Export-Import Bank of Washington.
3. Repurchase agreements in the securities enumerated above.
4. Interim deposits in the eligible institutions applying for interim monies.
5. Bonds and other obligations of the State of Ohio.
6. The State Treasurer's investment pool (STAR Ohio).

Notwithstanding the foregoing requirements, the City may invest any monies not required to be used for a period of six months in the following classes of investments:

1. Bonds or other obligations of the United States, or those for which the faith of the United States is pledged for the payment of principal and interest.
2. Discount notes of the Federal National Mortgage Association.
3. Bonds issued by the Federal Home Loan Mortgage Corporation.
4. Bonds of the State of Ohio.
5. Bonds of any municipal corporation, village, county, township, or other political subdivision of the state, as to which there is no default of principal, interest, or coupons.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 3 – DEPOSITS AND INVESTMENTS (continued)

Deposits. At year-end, the carrying amount of the City's deposits was \$23,925,565 and the bank balance was \$24,345,009. Of the bank balance:

1. \$514,353 was covered by federal depository insurance or by collateral held by the City's agent in the name of the City.
2. \$23,830,656 was uninsured and uncollateralized as defined by the Government Accounting Standards Board (GASB) because the collateral pledged by the financial institution or their trust departments or agents is not in the City's name, due to the fact the pledging bank has an investment and securities pool used to collateralize all public deposits. This pool had a market value at December 31, 2002 in excess of 110% of the public funds on deposit.

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

	Category <u>3</u>	Carrying Value	Fair Value
Repurchase Agreements	<u>\$ 105,000</u>	<u>\$ 105,000</u>	<u>\$ 105,000</u>

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 4 - FUND BALANCE/RETAINED EARNINGS RESTATEMENT

Beginning January 1, 2002, the City started reporting the Recreation Center activity in an Enterprise fund instead of a Special Revenue fund as was previously done. In addition, the excess of assets over liabilities was reclassified from the recreation center capital projects fund to this enterprise fund. The City was also reporting the revenues and expenses for water line construction in a Capital Projects fund, which are being reclassified to the Water fund. The effect of this change is as follows:

	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Enterprise</u>
Fund Balance/Retained Earnings as previously stated at 12/31/01	\$ (1,659,247)	\$ 5,274,494	\$ 21,287,594
Reclassify Excess of Revenues Under Expenditures to Water Fund	6,467,777	0	(6,467,777)
Reclassify Recreation Center Assets and Liabilities to Recreation Center Fund	(2,105,121)	(87,961)	2,193,082
Add Construction in Progress reported in General Fixed Assets	0	0	1,000,000
Add Construction in Progress previously expensed	0	0	1,780,000
Add General Obligation Bonds Payable reported in General Long Term Debt	<u>0</u>	<u>0</u>	<u>(4,920,000)</u>
Restated Fund Balance/Retained Earnings at 12/31/01	<u><u>\$ 2,703,409</u></u>	<u><u>\$ 5,186,533</u></u>	<u><u>\$ 14,872,899</u></u>

The recreation center special revenue fund and the recreation center capital projects fund were reclassified to an enterprise fund because the City expects the Recreation Center to be self-supporting. The waterline construction capital projects fund was reclassified to an enterprise fund to properly match capital outlay with the enterprise activity.

The reclassification of the waterline capital projects fund had no affect on current year revenue or expenses of the capital projects fund type. The reclassification of the recreation center activity had no affect on current year income in the capital projects fund type, and decreased net income in the special revenue fund type by approximately \$595,000. These changes affected current year revenues, expenses, and net income by \$501,394, \$1,110,613, and (\$609,219), respectively in the enterprise fund.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 4 - FUND BALANCE/ RETAINED EARNINGS RESTATEMENT (continued)

The general long-term obligations account group liabilities decreased from \$10,251,620 to \$5,331,620 due to the restatement and the general fixed asset account group assets decreased from \$19,477,163 to \$18,477,163.

Changes to the budgetary fund balances are as follows:

	<u>Capital Projects</u>	<u>Special Revenue</u>
Fund Balance/Retained Earnings as previously stated at 12/31/01	\$ 608,611	\$ 5,150,356
Reclassify Expenditures to Water Fund	6,467,777	0
Reclassify Cash to Water Fund	(3,885,121)	0
Reclassify Cash to Recreation Center Fund	<u>0</u>	<u>(87,961)</u>
Restated Fund Balance 12/31/01	<u>\$ 3,191,267</u>	<u>\$ 5,062,395</u>

NOTE 5 - FIXED ASSETS

The following is a summary of changes in the General Fixed Assets Account Group during the fiscal year:

	<u>Balance 1/1/2002</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/2002</u>
Land	\$ 1,021,974	\$ 0	\$ 0	\$ 1,021,974
Buildings	4,520,431	0	0	4,520,431
Machinery and equipment	4,451,860	301,324	0	4,753,184
Vehicles	3,690,348	140,825	0	3,831,173
Improvements	<u>4,792,550</u>	<u>168,749</u>	<u>0</u>	<u>4,961,299</u>
Total general fixed assets	<u>\$ 18,477,163</u>	<u>\$ 610,898</u>	<u>\$ 0</u>	<u>\$ 19,088,061</u>

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 5 - FIXED ASSETS (continued)

The following is a summary of proprietary fund type assets at December 31, 2002:

	Enterprise Funds
	<u> </u>
Land & land improvements	\$ 3,065,568
Buildings	2,902,821
Improvements other than buildings	23,298,372
Machinery and equipment	2,276,650
Vehicles	2,030,545
Construction in progress	<u>8,169,794</u>
Total fixed assets	41,743,750
Less: accumulated depreciation	<u>(13,929,284)</u>
 Net fixed assets	 <u><u>\$ 27,814,466</u></u>

In proprietary funds, the following estimated useful lives are used to compute depreciation:

Buildings	50 years
Machinery and equipment	10-20 years
Vehicles	4-5 years
Improvements other than buildings	20-40 years

NOTE 6 - RETIREMENT COMMITMENTS

Public Employees Retirement System

The City contributes to the Ohio Public Employees Retirement System (OPERS), a cost sharing multiple employer public employee retirement system administered by the Public Employees Retirement Board. OPERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. OPERS issues a publicly available financial report that includes financial statements and required supplementary information for OPERS. That report may be obtained by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 222-6705 or 1-800-222-PERS (7377).

The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll. For law enforcement, the employer rate was 16.70% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to OPERS for the years ended December 31, 2002, 2001, and 2000, were \$757,274, \$676,994, and \$541,682, respectively.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 6 - RETIREMENT COMMITMENTS (continued)

Police and Firemen's Disability and Pension Fund (PFDPF)

The City contributes to the Police and Firemen's Disability and Pension Fund (PFDPF), a cost-sharing multiple employer defined benefit pension plan. PFDPF 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 codified in Chapter 742 of the Ohio Revised Code. The PFDPF issues a publicly available financial report that includes financial statements and required supplementary information for PFDPF. That report may be obtained by writing to PFDPF, 140 East Town Street, Columbus, Ohio 43215-5164.

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 PFDPF for the years ending December 31, 2002, 2001, and 2000, were \$330,728, \$394,098, and \$384,562, respectively.

NOTE 7 - POST EMPLOYMENT HEALTH CARE BENEFITS

Public Employees Retirement System

In addition to providing pension benefits through Ohio Public Employee Retirement System ("System"), the System provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary service recipients is also available. The Ohio revised code provides statutory authority for employee and employer contributions to the System. The 2002 employer contribution rate for local government employer units was 13.55% of covered payroll; 5% was the portion that was used to fund health care for the year, which amounted to \$274,797. The public safety employer rate was 16.70% and 5% was used to fund health care for the year, which amounted to \$3,763.

The Other Post-Employment Benefit (OPEB) is a standardized disclosure measure of the present value of OPEB adjusted for the effects of payroll increases and health care premium increases. The measure, which is an actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due. The system does not make separate measurements of assets and OPEB for individual employers.

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$16.4 billion and \$4.8 billion, respectively. As of December 31, 2002, the actuarial value of the Retirement System's net assets available for future OPEB payments were \$11.6 billion. The number of statewide benefit recipients eligible for OPEB at December 31, 2002 was 402,041.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 7 - POST EMPLOYMENT HEALTH CARE BENEFITS (continued)

Police and Firemen's Disability and Pension Fund (PFDPF)

The Ohio Police and Fire Pension Fund (OP&F) provides postretirement health care coverage to any person who receives 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 full-time or on a 2/3 basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Ohio Police and Fire Pension Fund's board of trustees to provide health care coverage and states that health care costs paid from the Ohio Police and Fire Pension Fund shall be included in the employer's contribution rate. Health care funding and accounting is on a pay-as-you-go basis. The total police employer contribution is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll, of which 7.75% of covered payroll was applied to the postemployment health care program during 2002. For 2001, the percent used to finance healthcare was 7.5%. In addition, since July 1, 1993, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit check.

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

The City's actual contributions for 2002 that were used to fund postemployment benefits were \$121,179 for police and \$8,234 for fire. The OP&F's total health care expense for the year ended December 31, 2001 (the latest information available) was \$122,298,771, which was net of member contributions of \$6,874,699. The number of OP&F participants eligible to receive health care benefits as of December 31, 2001, was 13,174 for police and 10,239 for fire fighters.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 8 - DEBT OBLIGATIONS

Changes in debt obligations at December 31, 2002, consisted of the following:

	Balance 1/1/2002	Additions	Reductions	Balance 12/31/2002
Notes payable				
Interest rate is 3.125%, due 7/02	\$ 3,500,000	\$ 0	\$ 3,500,000	\$ 0
Interest rate is 4.75%, due 7/06	155,000	0	28,909	126,091
	<u>3,655,000</u>	<u>0</u>	<u>3,528,909</u>	<u>126,091</u>
General Obligation Bonds				
Interest rates vary from 3.25% to 9.63%, due through 2021	15,977,200	8,715,000	791,200	23,901,000
Special Assessment Bonds				
Interest rates vary from 6.25% to 12.00%, due through 2015	2,783,800	0	221,800	2,562,000
Compensated Absences	<u>631,620</u>	<u>407,094</u>	<u>422,266</u>	<u>616,448</u>
	<u>\$ 23,047,620</u>	<u>\$ 9,122,094</u>	<u>\$ 4,964,175</u>	<u>\$ 27,205,539</u>

Outstanding general obligation bonds consist of utility system and government building construction issues. General obligation bonds are direct obligations of the City for which its full faith, credit, and resources are pledged and are payable from taxes levied on all taxable property in the City.

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

The annual requirements to amortize all debt outstanding as of December 31, 2002 are as follows:

Year Ending December 31,	General Obligation Bonds			Special Assessment Bonds		
	Governmental Funds	Enterprise Funds	Total	Governmental Funds	Enterprise Funds	Enterprise Funds
2003	\$ 360,200	\$ 741,000	\$ 1,101,200	\$ 211,800	\$ 6,000	\$ 217,800
2004	301,600	764,600	1,066,200	191,800	6,000	197,800
2005	304,200	792,000	1,096,200	201,800	6,000	207,800
2006	305,600	815,600	1,121,200	206,800	7,000	213,800
2007	308,400	837,800	1,146,200	222,800	7,000	229,800
Thereafter	<u>1,821,000</u>	<u>16,549,000</u>	<u>18,370,000</u>	<u>1,446,000</u>	<u>49,000</u>	<u>1,495,000</u>
Total	<u>\$ 3,401,000</u>	<u>\$ 20,500,000</u>	<u>\$ 23,901,000</u>	<u>\$ 2,481,000</u>	<u>\$ 81,000</u>	<u>\$ 2,562,000</u>

The remaining interest to be paid on the general obligation bonds and special assessment bonds until maturity is \$12,160,793 and \$948,975, respectively.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 9 - PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 2001.

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

The full tax rate applied to real property for the fiscal year ended December 31, 2002 was \$5.70 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$5.41 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$5.23 per \$1,000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

Owners of tangible personal property are required to file a list of such property including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002, was \$5.70 of \$1,000 assessed valuation.

Real property - 2002 valuation	
Residential/agricultural	\$ 354,416,390
Commercial/industrial	<u>163,640,150</u>
	<u>\$ 518,056,540</u>
Tangible personal property - 2002 valuation	
General & public utilities	<u>\$ 89,405,785</u>

The Medina County Treasurer collects property tax on behalf of all taxing districts within the County. The Medina County Auditor periodically remits to the taxing districts their portions of the taxes collected.

NOTE 10 - LOCAL INCOME TAX

The City taxes earned income and net business profits at the rate of .5% . The Central Collection Agency is the City's agent for administering income tax collecting and accounting.

NOTE 11 - INSURANCE

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

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 12 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Included in the services provided by the City which are financed primarily by user charges are water, sanitation and airport services. The City leases the airport to a private company who is responsible for operating and maintaining the airport.

The key financial information for the year ended December 31, 2002 for these non-similar enterprise activities is as follows:

	<u>Airport *</u>	<u>Sanitation</u>	<u>Water</u>	<u>Rec Center</u>	<u>Total</u>
Operating revenues	\$ 332,175	\$ 2,697,554	\$ 2,996,085	\$ 501,394	\$ 6,527,208
Operating expenses, before depreciation	128,753	2,557,083	1,648,724	1,110,613	5,445,173
Depreciation expense	<u>61,946</u>	<u>280,604</u>	<u>529,229</u>	<u>0</u>	<u>871,779</u>
Operating income (loss)	141,476	(140,133)	818,132	(609,219)	210,256
Non-Operating revenue (expenses)	<u>0</u>	<u>13,442</u>	<u>(966,418)</u>	<u>(76)</u>	<u>(953,052)</u>
Net income (loss)	<u>\$ 141,476</u>	<u>\$ (126,691)</u>	<u>\$ (148,286)</u>	<u>\$ (609,295)</u>	<u>\$ (742,796)</u>
Assets	\$ 2,718,512	\$ 1,629,700	\$ 25,891,444	\$ 7,861,684	\$ 38,101,340
Net working capital	126,580	984,186	5,261,350	1,998,787	8,370,903
Bonds payable	0	0	13,191,000	7,390,000	20,581,000
Total equity	2,613,729	1,381,059	12,165,794	(556,213)	15,604,369

* Reflects operations as lessor. See note 14.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 13 - INTERFUND ASSETS/LIABILITIES

Due to/Due From

Receivable Fund	Payable Fund	Amount
General	Non-Expendable Trust	\$ 5,014
General	Expendable Trust	14,149
General	Internal Service	3,000
General	Special Revenue	137,580
General	Enterprise	70,074
General	Enterprise	91,485
Capital Projects	Enterprise	25,315
		<u>346,617</u>
Total		<u>\$ 346,617</u>

Interfund Notes Receivable/Interfund Notes Payable

Receivable Fund	Payable Fund	Amount
Enterprise	Enterprise	\$ 995,064
Enterprise	Capital Projects	171,483
Enterprise	General Fund	20,000
Enterprise	Special Revenue	1,045,927
		<u>2,232,474</u>
Total		<u>\$ 2,232,474</u>

NOTE 14 - AIRPORT LEASE

The City has a 20 year operating lease with Flight Services of Medina, a division of Olson Products. This lease began on January 1, 1995 and terminates on December 31, 2014 with an option to extend the term for an additional five years.

Annual rental income is \$200, and has been prepaid through the year 2005. Under the terms of the operating lease, the lessee is responsible for operating and maintaining the airport facility. However, the City is responsible for making major improvements.

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements (Continued)
For the Year Ended December 31, 2002**

NOTE 15 – CONTINGENT LIABILITIES

During the 2002 audit, the Auditor’s noted federal questioned costs totaling \$843,641, dealing with documentation and period of availability concerns. These questioned costs are related to the 1996 sale of airport land which was originally purchased with federal funds. The proceeds were to be spent within five years for eligible airport development costs per the land release agreement. This matter is being referred to the U.S. Department of Transportation, Federal Aviation Administration and the outcome of this matter cannot presently be determined.

The City is defendant in several lawsuits. The outcome of these suits is not presently determinable and counsel believes that the resolution of these matters will not materially affect the City’s financial condition.

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

NOTE 16 – CONTRACTUAL COMMITMENTS

As of December 31, 2002, the City had contractual commitments for the following projects:

Vendor	Project	Contractual Commitment	Expended	Balance 12/31/02
Superior Paving	Airport Runway	\$ 561,219	\$ 551,127	\$ 10,092
Medina City Schools	Recreation Center	7,500,000	4,835,000	2,665,000
Fabrizi Trucking	Litchfield/Medina Water Line	1,340,106	1,298,447	41,659
DLZ Oh	Elevated Tank	172,500	83,586	88,914
Camp, Dresser, McKee	Storm Sewer	206,000	188,101	17,899
A-1 Restoration	Mausoleum Roof	1,500	500	1,000
Spano Bros	Concrete Street Repairs	13,114	11,803	1,311
TR Snyder	Handicap Ramps	73,840	45,765	28,075
Cross-Roads Asphalt	Crack Sealing	20,950	18,855	2,095
Mark Schaffer Excavating	Bronson/Vine Water Line	465,217	323,236	141,981
Medina County Transit	Medina County	13,000	10,000	3,000
Traff-Pro	City Wide Signal Project	356,294	296,138	60,156
Finkbeiner Pettis	Litchfield/Medina Water Line	24,000	22,388	1,612
Environmental Design	E. Union/Weymouth	19,000	17,891	1,109
Whitworth Borta	Airport Engineering	46,563	21,356	25,207
Ad Infinitum	MCRC Ad Campaign	104,844	41,639	63,205
		<u>\$ 10,918,147</u>	<u>\$ 7,765,832</u>	<u>\$ 3,152,315</u>

CITY OF MEDINA - MEDINA COUNTY

**Notes to the General Purpose Financial Statements
For the Year Ended December 31, 2002**

NOTE 17 – RECREATION CENTER JOINT OPERATING AGREEMENT

On July 9, 2001, the City entered into a joint operating agreement and lease agreement with the Board of Education of the Medina City School District (the School Board) for the Medina Recreation Center (the Recreation Center).

Under the terms of these agreements, the Recreation Center is to be owned by the School Board and the City is to be granted a leasehold interest in the Recreation Center for a term commencing on January 4, 2003 and expiring on June 30, 2052, with an option to renew for an indefinite number of additional five year terms. The lease requires the City to prepay rent in the amount of \$7,500,000, which is due in installments as various phases of construction of the facility are completed. These payments will be treated by the City as a capital lease in accordance with Financial Statement Accounting Standards (FASB) #13. As of December 31, 2002, the City has paid \$4,835,000 of the \$7,500,000 which is reflected as Construction in Progress in the Enterprise Funds.

In addition to the initial rent payment, the City will also be required to pay annual rent of \$1 each year, and 47.5% of the Recreation Center's operating expenses which will be initially paid by the School Board and invoiced to the City on a monthly basis. The City and the School Board will also each be required to contribute \$100,000 a year, for the term of the lease, to separate Capital Improvement Funds which may be spent for upkeep of the facilities through mutual agreement of both parties upon the recommendation of an Advisory Committee. However, no contributions to the Capital Improvement Funds are required, by either party, for the first two years of operations, and contributions of only 30%, 60%, and 90% are required for the third, fourth and fifth years, respectively.

The Recreation Center's Advisory Committee will consist of seven members, in which two each will be appointed by the School Board and City and four by election. The Advisory Committee members may serve for an unlimited number of three year terms, and will be responsible for advising the City and School Board regarding scheduling, operating expenses and day-to-day operations of the Recreation Center, as well as, use of the Capital Improvement Funds.

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CITY OF MEDINA
MEDINA COUNTY

**SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

Federal Grantor/ Pass Through Grantor/ Program Title	Federal CFDA Number	Pass Through Entity Number	Receipts	Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
<i>(Direct)</i>				
Community Development Block Grants/ State's Program	14.228	A-F-00-147-1 A-F-01-147-1 A-F-02-147-1	\$84,804	\$2,258 53,886 21,185
			<u>84,804</u>	<u>77,329</u>
HOME Investment Partnerships Program	14.239			<u>1,822</u>
Total U.S. Department of Housing and Urban Development			84,804	79,151
<u>U.S. DEPARTMENT OF JUSTICE</u>				
<i>(Direct)</i>				
Public Safety Partnership and Community Policing Grants	16.710		19,606	19,606
<i>(Passed through the Bureau of Justice Assistance)</i>				
Bulletproof Vest Partnership Program	16.607	02012289	<u>1,296</u>	<u>1,650</u>
Total U.S. Department of Justice			20,902	21,256
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>				
<i>(Direct)</i>				
Airport Improvement Program	20.106		<u>220,335</u>	<u>220,335</u>
Total			<u>326,041</u>	<u>320,742</u>

The notes to this schedule are an integral part of this schedule.

**CITY OF MEDINA
MEDINA COUNTY**

**NOTES TO THE SCHEDULE OF RECEIPTS AND EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Receipts and Expenditures of Federal Awards (the Schedule) summarizes activity of the City's federal award programs. The Schedule has been prepared on the cash basis of accounting.

NOTE B - PROCEEDS FROM THE SALE OF AIRPORT LAND

On August 29, 1996, the Federal Aviation Administration (FAA) approved the land release for the airport property which was sold, in the amount of \$843,004. The FAA required the City to spend the proceeds within 5 years of the receipt of the proceeds; and these proceeds could not be used to meet local matching requirements. The City failed to segregate these proceeds into a separate account or Fund, and as a result, the City is unable to determine compliance with the Land Release Agreement.

No expenditures have been included related to \$843,004.30 of land sale proceeds received in 1996 which is the subject of a questioned cost as discussed in the Independent Accountants' Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 dated November 3, 2003.



**Auditor of State
Betty Montgomery**

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

City of Medina
Medina County
132 North Elmwood Avenue
Medina, Ohio 44256

To the City Council:

We have audited the financial statements of the City of Medina, Medina County, Ohio, (the City) as of and for the year ended December 31, 2002, and have issued our report thereon dated November 3, 2003, wherein we qualified our opinion due to a lack of evidence supporting General Fixed Assets Account Group and Enterprise Fund fixed assets and noted the City reclassified certain activity to the Enterprise Fund Type. Except for our procedures relating to fixed assets, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings and Questioned Cost as items 2002-001 and 2002-002. We also noted certain immaterial instances of noncompliance that we have reported to the management of the City in a separate letter dated November 3, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings and Questioned Cost as item 2002-003.

111 Second St., NW / Fourth Floor / Canton, OH 44702
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www.auditor.state.oh.us

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the City in a separate letter dated November 3, 2003.

This report is intended for the information and use of management, the Audit Committee, 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.

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

Betty Montgomery
Auditor of State

November 3, 2003



Auditor of State Betty Montgomery

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

City of Medina
Medina County
132 North Elmwood Avenue
Medina, Ohio 44256

To the City Council:

Compliance

We have audited the compliance of the City of Medina, Medina County, Ohio (the City) 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, 2002. The City's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with 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 occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the City'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's compliance with those requirements.

In our opinion, the City 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, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with the types of requirements described above that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Cost as item 2002-004. We noted a certain instance of noncompliance that does not require inclusion in this report that we have reported to management of the City in a separate letter dated November 3, 2003.

Internal Control Over Compliance

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal 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.

This report is intended for the information and use of management, the Audit Committee, 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.

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

Betty Montgomery
Auditor of State

November 3, 2003

CITY OF MEDINA
MEDINA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COST
OMB CIRCULAR A -133 §.505
DECEMBER 31, 2002

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Qualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	Yes
<i>(d)(1)(vii)</i>	Major Programs (list):	Airport Improvement Program, CFDA #20.106
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	No

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

FINDING NUMBER 2002-001

Noncompliance Citation

Ohio Rev. Code Section 5705.41(D) requires that no subdivision or taxing unit make any contract or order any expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the same has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

**FINDING NUMBER 2002-001
 (Continued)**

Noncompliance Citation (Continued)

This section also provides for two “exceptions” to the above requirements:

- a. Then and Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer’s certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, City Council may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within 30 days from the receipt of such certificate
- b. If the amount involved is less than \$1,000 (which was increased to \$3,000 as of April 7, 2003), the City Finance Director may authorize payment through a Then and Now Certificate without affirmation of City Council, if such expenditure is otherwise valid

During 2002, 20 out of 29 expenditures tested (69%) were not certified by the City Finance Director prior to incurring the obligation. It was also found that neither of the two exceptions above were utilized for the items found to be in noncompliance. The City should certify the availability of funds prior to incurring the obligation for expenditures. The City should also implement the use of Then and Now certificates and Blanket Certificates as further permitted by Ohio Rev. Code Section 5705.41

FINDING NUMBER 2002-002

Ohio Rev. Code Sections 5705.14, 5705.15 and 5705.16 provide guidelines pertaining to allowable inter-fund transfers. Ohio Rev. Code Section 5705.14 allows for certain transfers as long as there is a resolution passed by a 2/3 vote of the taxing authority. Transfers from the general fund, however, require a resolution passed by only a simple majority of the taxing authority. Ohio Rev. Code Section 5705.16 provides that, in addition to the transfers permitted by 5705.14, the taxing authority may, with the approval of the tax commissioner and the court of common pleas, make other transfers with certain exceptions.

The following transfers were not permitted under Ohio Rev. Code Section 5705.14, nor were they approved by the Tax Commissioner and the Court of Common Pleas.

<u>Transfers Out of Fund</u>	<u>Transfers Into Fund</u>	<u>Amount</u>
Storm Sewer Replacement Fund	General Fund	\$179,000
Computer Electronics Fund	General Fund	300,000
Unanticipated Contingencies	General Fund	7,656
General Purpose Capital Projects	Capital Projects (329)	65,400
Capital Projects (346)	Capital Projects (329)	500,500
Water Fund	Capital Projects (329)	200,000
Court Special Project	Capital Projects (329)	160,000
Capital Projects (329)	Capital Projects (346)	1,700,000

**FINDING NUMBER 2002-002
(Continued)**

Noncompliance Citation (Continued)

The City Finance Director should obtain approval from the Tax Commissioner and the Medina County Court of Common Pleas prior to transferring money from any fund if the transfer does not fall under one of the exceptions provided in Ohio Rev. Code Section 5705.14. The City has made adjustments to reverse these transactions and the effects are reflected on the financial statements.

FINDING NUMBER 2002-003

Material Weakness

Fixed Assets:

The City does not maintain comprehensive records to account for fixed asset balances, additions, deletions, and accumulated depreciation. The City has also not determined, nor has it recorded, the historical values for several parcels of land owned by the City.

The lack of a comprehensive fixed asset accounting system could result in the overstatement or understatement of fixed assets and related accumulated depreciation.

We recommend that management:

- a. Develop a centralized policy and comprehensive procedures with appropriate documentation forms, including a form to be completed when fixed assets are deleted, which would require approval by the Board of Control prior to the disposition of any fixed assets. A copy of the documentation form should be routed to the Finance Department for input into a fixed asset record by department and type of asset to permit the preparation of the financial statements. The system should also accurately reflect all current and accumulated depreciation.
- b. Determine and record in the fixed asset records the historical cost of all land owned by the City.
- c. Perform a physical count of fixed assets to obtain an accurate balance and then perform periodic physical counts at least annually.
- d. Maintain a detailed master fixed asset list appropriately sorted which readily supports financial statement preparation (i.e. by class, type, etc.)

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Land Release Requirements

Finding Number	2002-004
CFDA Title	Land Release Proceeds
CFDA Number	20.XXX
Pass Through Entity Number/Year	Direct
Federal Oversight Agency	U.S. Department of Transportation

Noncompliance Citation

The following matter is required to be reported under Office of Management and Budget Circular A-133 §__.510(a)(4), which requires the auditor to report as audit findings in a schedule of findings and questioned costs known questioned costs which are greater than \$10,000 for a Federal program which is not audited as a major program.

The U.S. Department of Transportation, Federal Aviation Administration issued a letter to the City of Medina, Medina Municipal Airport (the Airport) dated August 29, 1996, authorizing the Airport to sell certain land previously purchased in part with federal dollars (the Letter). The Letter provides, in part, that the net sale proceeds estimated at \$865,000 shall be used within five years for eligible items of airport development as set forth in the Airport's FY-97 to FY-01 Capital Improvement Program, or current yearly updates.

The City sold the land on September 11, 1996 for \$849,904.80, and received a check dated September 30, 1996 in the amount of \$839,429.30, which when combined with a payment previously received totaled \$849,904.80. After closing, survey, and environmental assessment costs of \$6,900.50 the remaining balance was \$843,004.30 (Land Proceeds).

The City deposited the Land Proceeds into the Municipal Airport fund. However, since 1996 the City has used the Municipal Airport fund to account for other federal, state, and local revenues. The City did not use separate accounts or other means to distinguish revenue sources and disbursements from those revenues.

Based on the terms of the Letter, the City was required to spend the Land Proceeds no latter than September 30, 2001 on eligible projects as defined in the Letter. The City has not previously reported the use of Land Proceeds on its Schedule of Receipts and Expenditures of Federal Awards, required by Office of Management and Budget Circular A-133. As of November 3, 2003, the City was unable to provide documentation indicating Land Proceeds were used for specific eligible expenditures. Further, due to the commingling of Land Proceeds, the City was unable to demonstrate how much, if any, of the Land Proceeds were spent in a given year, nor how much, if any, remained on deposit as of December 31, 2001 (and possibly continuing into current periods). Accordingly, we are reporting questioned costs of \$843,004.30.

**CITY OF MEDINA
MEDINA COUNTY**

**SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002**

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-20952-001	The City failed to certify the availability of funds for all expenditures contrary to Ohio Rev. Code Section 5705.41(D)	No	Not Corrected – See Finding Number 2002-001
2001-20952-002	The City does not maintain comprehensive records to account for fixed asset balances, additions, deletions, and accumulated depreciation.	No	Not Corrected. – See Finding Number 2002-003

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CITY OF MEDINA

MEDINA COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 27, 2004**