

**City of Lima**  
**Allen County**

**Basic Financial Statements**  
**For the Year Ended December 31, 2003**





**Auditor of State  
Betty Montgomery**

Mayor and Members of Council  
City of Lima  
Lima, Ohio

We have reviewed the Independent Auditor's Report of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2003 through December 31, 2003. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY  
Auditor of State

January 24, 2005

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City of Lima, Ohio  
 General Purpose Financial Statements  
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# Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

August 19, 2004

Mayor and Members of Council  
City of Lima  
Lima, Ohio

## **Independent Auditor's Opinion**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As stated in Note 1, the City of Lima, Ohio adopted Governmental Accounting Standards Board (GASB) Statements No. 34, Basic Financial Statements and Management's Discussion and Analysis, No. 37, Basic Financial Statements—and Management's Discussion and Analysis—For State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures, and GASB Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financials.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lima, Ohio, as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and CDBG fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated August 19, 2004, on our consideration of the City of Lima'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 Audit Standards" and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lima, Ohio's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U. S. Office of Management and Budget Circular A-133, "Audit of States, Local Governments, and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Rea & Associates, Inc.*

## **CITY OF LIMA – ALLEN COUNTY**

### *Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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The discussion and analysis of the City of Lima's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2003. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the City's financial performance.

### ***Financial Highlights***

Key financial highlights for 2003 are as follows:

- ❑ General Revenues accounted for \$21.5 million in revenue or 43% of all revenues. Program specific revenues in the form of charges for services and sales, grants, and contributions accounted for \$27.7 million or 57% of total revenues of \$49.2 million.
- ❑ Total program expenses were \$44.9 million, \$27.9 million in governmental activities and \$17 million in business-type activities.
- ❑ In total, net assets increased \$4,287,177. Net assets of governmental activities increased \$2,611,262, which represents an 11.9% increase from 2002. Net assets of business-type activities increased \$1,675,915 or 3.9% from 2002.
- ❑ Outstanding debt increased from \$25,022,849 to \$30,709,771 due to the issuance of several large bond anticipation notes, the proceeds of which will be used in early 2004 to retire the outstanding enterprise fund revenue bonds. In addition the City entered into a termination agreement with the State of Ohio. The \$2,841,646 will be repaid over a twenty-year period at zero percent interest. This agreement terminates the cooperative agreement entered into in 1970 to construct Bresler Reservoir.

### ***Using this Annual Financial Report***

This report is designed to allow the reader to look at the financial activities of the City of Lima as a whole and is intended to allow the reader to obtain a summary view or a more detailed view of the City operations, as they prefer.

The Statement of Net Assets and the Statement of Changes in Net Assets provide information from a summary perspective showing the effects of the operations for the year 2003 and how they affected the operations of the City as a whole.

### ***Reporting the City of Lima as a Whole***

#### *Statement of Net Assets and the Statement of Activities*

The *Statement of Net Assets and Statement of Activities* provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column. In the case of the City of Lima, the general fund is by far the most significant fund.



## CITY OF LIMA – ALLEN COUNTY

### *Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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A question typically asked about the City's finances "How did we do financially during fiscal year 2003?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets and liabilities* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the City's *net assets* and *changes in those assets*. This change in net assets is important because it tells the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the City's income tax base, facility conditions, federal and state mandates, and other factors.

In the Statement of Net Assets and the Statement of Activities, the City is divided into two distinct kinds of activities:

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

### ***Reporting the City of Lima's Most Significant Funds***

#### *Fund Financial Statements*

A fund is a grouping of related accounts that is used to maintain control over resources that have been safeguarded for specific activities or objectives. The City uses many funds to account for financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund and the community development block grant (CDBG) special revenue fund.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and CDBG fund, both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

**CITY OF LIMA – ALLEN COUNTY**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2003  
(Unaudited)

The City adopts an annual appropriated budget for each of its funds. A budgetary comparison statement has been provided for the general fund and the major special revenue fund to demonstrate compliance with this budget.

**Proprietary Funds** - Proprietary funds use the same basis of accounting as business-type activities (water, sewer and refuse); therefore, these statements will essentially match.

**Fiduciary Funds** - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for the fiduciary funds is much like that used for proprietary funds.

**The City of Lima as a Whole**

Recall that the Statement of Net Assets provides the perspective of the City as a whole.

Table 1 provides a summary of the City's net assets for 2003 compared to 2002:

**(Table 1)**  
**Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
<b>Assets</b>						
Current and Other Assets	\$ 23,812,273	\$ 21,466,186	\$ 30,372,133	\$ 25,565,875	\$ 54,184,406	\$ 47,032,061
Capital Assets	15,343,709	14,344,188	44,710,721	41,997,310	60,054,430	56,341,498
Total Assets	39,155,982	35,810,374	75,082,854	67,563,185	114,238,836	103,373,559
<b>Liabilities</b>						
Long-Term Liabilities	5,390,527	5,372,826	28,999,742	23,134,827	34,390,269	28,507,653
Other Liabilities	9,262,247	8,545,602	1,279,335	1,183,825	10,541,582	9,729,427
Total Liabilities	14,652,774	13,918,428	30,279,077	24,318,652	44,931,851	38,237,080
<b>Net Assets</b>						
Invested in Capital Assets Net of Debt	13,548,709	12,524,188	19,792,623	18,243,361	33,341,332	30,767,549
Restricted	4,485,917	4,671,969	3,512,888	3,379,889	7,998,805	8,051,858
Unrestricted	6,468,582	4,695,789	21,498,266	21,621,283	27,966,848	26,317,072
Total Net Assets	\$ 24,503,208	\$ 21,891,946	\$ 44,803,777	\$ 43,244,533	\$ 69,306,985	\$ 65,136,479

Total assets increased by \$10.8 million with governmental assets increasing \$3.3 million and business-type assets increasing \$7.5 million. An increase of approximately \$936,000 in total capital assets reflects additional purchases exceeding depreciation.

**CITY OF LIMA – ALLEN COUNTY**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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Total liabilities increased by \$6.7 million with business-type liabilities comprising \$6 million of that amount. Governmental activities liabilities increased \$734,000. The increase in business-type liabilities was the result of the increase in bond anticipation notes (\$4.22 million) and the decrease of other bonded debt (\$1.5 million). In addition, the City entered into a long-term agreement with the State of Ohio to terminate the cooperative agreement regarding Bresler Reservoir (\$2.8 million). The increase in governmental activities liabilities was due to an increase in claims payable (\$274,000), accounts payable (\$471,000), intergovernmental payables (\$160,000) and a decrease in deferred revenue (\$252,000).

Total net assets increased by \$4.3 million. This number reflects an increase in governmental activities of \$2.6 million and an increase in the net assets of the business-type activities of \$1.7 million.

Table 2 shows the changes in net assets for fiscal year 2003. Since this is the first year the City has prepared financial statements following the implementation of GASB Statement No. 34, revenue and expense comparisons to fiscal year 2002 are not available. This table will present two fiscal years in side-by-side comparisons in successive reporting years. This will enable the reader to draw further conclusion about the City's financial status and possibly project future issues.

**CITY OF LIMA – ALLEN COUNTY**  
*Management's Discussion and Analysis*  
For the Year Ended December 31, 2003  
(Unaudited)

**(Table 2)**  
**Changes in Net Assets**

	Governmental Activities	Business-Type Activities	Total
	2003	2003	2003
<b>Revenues</b>			
<i>Program Revenues:</i>			
Charges for Services	\$ 5,863,039	\$ 18,584,896	\$ 24,447,935
Operating Grants	2,433,418	0	2,433,418
Capital Grants	742,084	84,339	826,423
<i>General Revenue:</i>			
Property Taxes	1,039,320	0	1,039,320
Income Taxes	15,676,364	0	15,676,364
Other Local Taxes	76,481	0	76,481
Grants and Entitlements	4,129,283	0	4,129,283
Gain on Sale of Capital Assets	10,083	(2,795)	7,288
Investments	516,225	24,956	541,181
Miscellaneous	23,640	0	23,640
<b>Total Revenues</b>	<b>30,509,937</b>	<b>18,691,396</b>	<b>49,201,333</b>
<b>Program Expenses</b>			
General Government	7,167,991	0	7,167,991
Security of Persons and Property	14,162,432	0	14,162,432
Transportation	2,891,943	0	2,891,943
Community Environment	2,540,962	0	2,540,962
Leisure Time Activities	993,180	0	993,180
Interest and Fiscal Charges	142,167	0	142,167
<i>Enterprise Operations:</i>			
Water	0	8,034,977	8,034,977
Sewer	0	6,975,014	6,975,014
Refuse	0	2,005,490	2,005,490
<b>Total Program Expenses</b>	<b>27,898,675</b>	<b>17,015,481</b>	<b>44,914,156</b>
Increase in Net Assets Before Transfers and Contributions	2,611,262	1,675,915	4,287,177
<b>Increase in Net Assets</b>	<b>\$ 2,611,262</b>	<b>\$ 1,675,915</b>	<b>\$ 4,287,177</b>

**CITY OF LIMA – ALLEN COUNTY**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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**Governmental Activities**

The funding for the governmental activities comes from several different sources, the most significant being the municipal income tax. Other prominent sources are property taxes, grants and entitlements, charges for services and investment interest.

The City's income tax went into effect January 1, 1960 at a rate of 0.75 percent. The rate was increased to 1 percent on January 1, 1967. The income tax rate was increased to its current rate of 1.5 percent on January 1, 1983. Both residents of the City and non-residents who work inside the City are subject to the income tax. However if residents work in a locality that has a municipal income tax, the City provides 100 percent credit up to 1.5 percent for those who pay income tax to another city. City Council could, by Ordinance, choose to vary that income tax credit and create additional revenues for the City.

General revenues include grants and entitlements, such as local government funds. With the combination of property tax, income tax and intergovernmental funding, all expenses in the governmental activities are funded. The City monitors its source of revenues very closely for fluctuations.

Police and fire represent the largest expense of the Governmental Activities. This expense of \$14,162,432 represents 51 percent of the total governmental services expenses. These two departments operate out of the General fund.

General government expenses equaled \$7,167,991 or 26% of the total government services expenses. This category includes expenses associated with those City departments not associated with the other cost centers.

Our Transportation Department employs 16 full time employees who provide the City and its citizens many services that include public road salting, leaf and debris pickup, paint striping and alley profiling. This department operates out of both the General fund and the Street Repair Special Revenue fund. This department had expenses of \$2,891,943 or 10 percent of the total governmental services expenses.

The City's Community Development Department accounts for the Community Environment expenses. This department provides services such as code enforcement, home repair assistance, some economic development work and other community environment related services. Community Environment expenses equaled \$2,540,962 in 2003. This is 9 percent of total governmental services expenses.

The City also maintains 12 parks (leisure time activities) within the City. Leisure time activities also account for the City sponsored recreational activities. This area had expenses of \$993,180 in 2003 equaling 4 percent of the total governmental services expenses.

**CITY OF LIMA – ALLEN COUNTY**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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**Business-Type Activities**

Business-type activities include water, sewer and refuse operations. The revenues are generated primarily from charges for services. In 2003, charges for services of \$18,584,896 accounted for 99 percent of the revenues. The total expenses for the utilities were \$17,015,481, thus leaving an increase in net assets of \$1,675,915 for the business-type activities.

***The City's Funds***

Information about the City's governmental funds begins on page 15. These funds are accounted for using the modified accrual method of accounting. All governmental funds had revenues of \$29,520,865 and expenditures of \$29,719,795. The funds are monitored consistently with adjustments made throughout the year in budgets to accommodate yearly revenues.

Information about the proprietary funds starts on page 13 and continues on page 21. These funds are accounted for on an accrual basis. All business type funds had operating revenues of \$18,584,896, which exceeded operating expenses of \$16,095,416 by \$2,489,480 or 13 percent of operating revenues. The City is consistent with reviews of these funds, and the necessary adjustments are made to ensure strength in our enterprise funds.

***General Fund Budgeting Highlights***

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

During the course of 2003, the City amended its general fund budget on only one occasion. All recommendations for appropriation changes come to Council from the City Finance Director. The Finance Committee of Council reviews them, and they make their recommendation to the Council as a whole.

For the general fund, budget basis actual revenue was \$24.3 million, over the final budget estimates of \$23.5 million. Of this \$800,000 favorable variance, \$945,000 was attributable to higher than anticipated income tax collections. There was also a shortfall of \$233,000 in fines and forfeitures collections.

Actual expenditures of \$24.2 million were \$1.3 million lower than the final appropriations of \$25.5 million. Both the higher than anticipated revenue and the lower than anticipated expenditures resulted in the net increase in fund balance of \$205,997.

**CITY OF LIMA – ALLEN COUNTY**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2003*  
*(Unaudited)*

***Capital Assets and Debt Administration***

**Capital Assets**

At the end of year 2003, the City had \$60 million invested in land, buildings, equipment, infrastructure and vehicles. A total of \$15.3 million of this was for governmental activities with the remainder of \$44.7 million attributable to business-type activities. Table 3 shows fiscal year 2003 balances compared with 2002.

**(Table 3)**  
**Capital Assets at December 31**  
**(Net of Depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 4,394,836	\$ 4,082,787	\$ 1,225,948	\$ 1,107,594	\$ 5,620,784	\$ 5,190,381
Construction in Progress	886,831	354,714	511,692	252,220	1,398,523	606,934
Buildings and Improvements	8,082,543	8,290,421	22,481,695	21,075,274	30,564,238	29,365,695
Furniture and Equipment	1,132,259	1,196,659	6,544,539	6,463,806	7,676,798	7,660,465
Vehicles	374,818	419,607	879,691	741,936	1,254,509	1,161,543
Intangible Assets	0	0	127,195	190,793	127,195	190,793
Capitalized Interest	0	0	1,622,223	1,683,680	1,622,223	1,683,680
Infrastructure	472,422	0	11,317,738	10,482,007	11,790,160	10,482,007
Totals	\$ 15,343,709	\$ 14,344,188	\$ 44,710,721	\$ 41,997,310	\$ 60,054,430	\$ 56,341,498

The \$3.7 million increase in capital assets was attributable to additional purchases of land in both governmental and business-type activities and the booking of infrastructure in the governmental activities. This infrastructure activity was not previously recorded in governmental funds. The City also restated business-type activities assets to include assets associated with Bresler Reservoir. These assets were not previously recorded. Note 9 provides capital asset activity during the 2003 year. In addition, the City changed its threshold for capitalizing assets. Effective January 1, 2003, the City began capitalizing items costing \$2,500 or higher, the prior limit had been \$250. See Note 9 for further details.

**CITY OF LIMA – ALLEN COUNTY**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

**Debt Administration**

The outstanding debt for the City as of December 31, 2003 was \$30,709,771. This balance reflected an increase of \$5,686,922 from the previous year's balance of \$25,022,849, an increase of 22.7 percent. Table 4 summarizes outstanding debt.

**(Table 4)**  
**Outstanding Debt, at December 31**

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue Bonds	\$ 0	\$ 0	\$ 5,730,000	\$ 6,450,000	\$ 5,730,000	\$ 6,450,000
General Obligation Bonds	1,795,000	1,820,000	4,422,493	4,668,692	6,217,493	6,488,692
Special Assessment Bonds	215,000	287,000	0	0	215,000	287,000
Fire Pumper Loan	7,730	49,171	0	0	7,730	49,171
Capital Leases	46,232	89,972	0	0	46,232	89,972
OWDA Loans	0	0	7,283,752	7,768,014	7,283,752	7,768,014
Bresler Termination Agreement	0	0	2,699,564	0	2,699,564	0
Notes Payable	400,000	400,000	8,110,000	3,490,000	8,510,000	3,890,000
<i>Total</i>	<u>\$ 2,463,962</u>	<u>\$ 2,646,143</u>	<u>\$ 28,245,809</u>	<u>\$ 22,376,706</u>	<u>\$ 30,709,771</u>	<u>\$ 25,022,849</u>

The general obligation bonds are composed of (1) Municipal Center Refunding – a 1999 unvoted debt issue repaid from general governmental activities revenue; (2) 1999 Parking Facility unvoted issue for the construction of downtown parking garage repaid from general governmental activities revenue; (3) 1999 Water and Sewer Bond Refunding unvoted issue for the purpose of refinancing a portion of the water and sewer revenue bonds to be repaid from business-type activities charges for services revenue.

The special assessment bonds consist of various street improvement projects. The principal and interest for these bonds are paid from the collection of special assessments by the County Auditor from the specific property owners who primarily benefited from the projects.

The revenue bonds consist of (1) 1999 Water and Sewer Refunding issues used for various capital improvements in the water and sewer systems to be repaid from business-type activities charges for services revenue.

The OWDA loans consist of 2 separate loans issued by the Ohio Water Development Administration to finance improvements at the City's wastewater treatment plant. These loans are to be repaid from business-type activities charges for services revenue.

The notes payable consist of (1) Bond Anticipation Note for the Ottawa River Bikeway to be repaid from general governmental activities revenue; (2) Bond Anticipation Note for sewer system screen project to be rolled into a general obligation bond in 2004; (3) Bond Anticipation Notes for both the water and sewer funds used to refinance the existing revenue bonds to be rolled into a general obligation bond in 2004.



**CITY OF LIMA – ALLEN COUNTY**

*Management's Discussion and Analysis*

*For the Year Ended December 31, 2003*

*(Unaudited)*

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The fire pumper loan and capital leases payable both regard equipment purchases for the City's fire department. Both of these issues will be paid in full in 2004.

The Bresler Termination agreement ends the City's joint agreement with the State of Ohio. The original agreement was formed when Bresler reservoir was constructed in 1970. The State paid for a percentage of the construction and thus retained rights to a portion of the water in the reservoir. In 2003, in order to obtain the State's claim on that water, the City agreed to repay the State's share of the construction costs over a twenty-year period at zero percent interest. The total amount to be repaid is \$2,841,646.

Additional information concerning the City's debt can be found in Note 14 to the basic financial statements.

***Current Financial Issues***

The City administration is currently working with businesses to occupy several industrial parks within the City limits. Extension of City utilities to new areas is an ongoing process. In addition, the City's Utilities department is in the preliminary planning stages of a new reservoir to serve the anticipated needs of a new power generating facility expected to break ground in late 2004.

The City is developing new and enhancing existing economic development incentives to attract new businesses and encourage existing ones to expand their operations within the City of Lima.

The plans for the future are always made keeping a careful watch on the financial condition of the City. The City of Lima's goal is to keep itself financially strong and enable growth to meet the needs of the future.

***Contacting the City Auditor's Department***

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Gene Reaman, Auditor of City of Lima, 50 Town Square, Lima, OH 45805.

**City of Lima - Allen County**

*Statement of Net Assets*

December 31, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Equity in Pooled Cash and Cash Equivalents	\$ 9,089,735	\$ 21,244,397	\$ 30,334,132
Cash and Cash Equivalents:			
In Segregated Accounts	254,762	582,086	836,848
With Fiscal Agents and Escrow Agents	415,641	0	415,641
Taxes Receivable	3,998,110	0	3,998,110
Accounts Receivable	284,354	2,876,860	3,161,214
Intergovernmental Receivable	5,828,005	0	5,828,005
Special Assessments Receivable	2,266,169	0	2,266,169
Accrued Interest Receivable	30,211	1,683	31,894
Materials and Supplies Inventory	33,653	85,708	119,361
Notes Receivable	1,986,377	0	1,986,377
Prepaid Items	52,927	79,390	132,317
Unamortized Bond Issuance Costs	0	219,282	219,282
Internal Balances	(427,671)	427,671	0
Restricted Assets:			
Equity in Pooled Cash and Cash Equivalents	0	3,765,106	3,765,106
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	1,089,950	1,089,950
Nondepreciable Capital Assets	5,281,667	1,737,640	7,019,307
Depreciable Capital Assets, Net	10,062,042	42,973,081	53,035,123
<i>Total Assets</i>	<u>39,155,982</u>	<u>75,082,854</u>	<u>114,238,836</u>
<b>Liabilities</b>			
Accounts Payable	1,078,207	384,957	1,463,164
Contracts Payable	183,147	249,702	432,849
Accrued Wages	459,242	126,666	585,908
Retainage Payable	10,758	0	10,758
Intergovernmental Payable	790,850	191,771	982,621
Deferred Revenue	6,581,687	0	6,581,687
Accrued Interest Payable	10,980	44,229	55,209
Claims Payable	513,715	0	513,715
Payable from Restricted Assets:			
Refundable Deposits	0	252,218	252,218
Interest Payable	0	29,792	29,792
Long-Term Liabilities:			
Due Within One Year	781,574	9,807,260	10,588,834
Due In More Than One Year	4,242,614	19,192,482	23,435,096
<i>Total Liabilities</i>	<u>14,652,774</u>	<u>30,279,077</u>	<u>44,931,851</u>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	13,094,746	21,464,345	34,559,091
Restricted for:			
Capital Projects	32,635	0	32,635
Debt Service	371,538	0	371,538
Other Purposes	4,081,744	3,512,888	7,594,632
Unrestricted	6,922,545	19,826,544	26,749,089
<i>Total Net Assets</i>	<u>\$ 24,503,208</u>	<u>\$ 44,803,777</u>	<u>\$ 69,306,985</u>

See accompanying notes to the basic financial statements

**City of Lima - Allen County**  
*Statement of Activities*  
For the Year Ended December 31, 2003

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services and Sales	Operating Grants, Contributions and Interest	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
Security of Persons and Property	\$ 14,162,432	\$ 278,700	\$ 717,447	\$ 72,752	\$ (13,093,533)	\$ 0	\$ (13,093,533)
Leisure Time Activities	993,180	87,088	0	0	(906,092)	0	(906,092)
Community Environment	2,540,962	286,619	1,715,821	421,295	(117,227)	0	(117,227)
Transportation	2,891,943	140,826	0	248,037	(2,503,080)	0	(2,503,080)
General Government	7,167,991	4,979,763	150	0	(2,188,078)	0	(2,188,078)
Interest and Fiscal Charges	142,167	0	0	0	(142,167)	0	(142,167)
<i>Total Governmental Activities</i>	<u>27,898,675</u>	<u>5,772,996</u>	<u>2,433,418</u>	<u>742,084</u>	<u>(18,950,177)</u>	<u>0</u>	<u>(18,950,177)</u>
<b>Business-Type Activities:</b>							
Water	8,034,977	8,704,166	0	84,339	0	753,528	753,528
Sewer	6,975,014	7,794,297	0	0	0	819,283	819,283
Refuse	2,005,490	2,086,433	0	0	0	80,943	80,943
<i>Total Business-Type Activities</i>	<u>17,015,481</u>	<u>18,584,896</u>	<u>0</u>	<u>84,339</u>	<u>0</u>	<u>1,653,754</u>	<u>1,653,754</u>
<i>Totals</i>	<u>\$ 44,914,156</u>	<u>\$ 24,357,892</u>	<u>\$ 2,433,418</u>	<u>\$ 826,423</u>	<u>(18,950,177)</u>	<u>1,653,754</u>	<u>(17,296,423)</u>
	<b>General Revenues</b>						
	Property Taxes Levied for:						
	General Purposes				1,039,320	0	1,039,320
	Income Tax Levied for:						
	General Purposes				15,676,364	0	15,676,364
	Other Local Taxes				76,481	0	76,481
	Intergovernmental Revenue				4,129,283	0	4,129,283
	Gain on Sale of Capital Asset				10,083	(2,795)	7,288
	Investment Earnings				606,268	24,956	631,224
	Miscellaneous				23,640	0	23,640
	<i>Total General Revenues</i>				<u>21,561,439</u>	<u>22,161</u>	<u>21,583,600</u>
	Change in Net Assets				2,611,262	1,675,915	4,287,177
	<i>Net Assets Beginning of Year - (See Note 3)</i>				<u>21,891,946</u>	<u>43,127,862</u>	<u>65,019,808</u>
	<i>Net Assets End of Year</i>				<u>\$ 24,503,208</u>	<u>\$ 44,803,777</u>	<u>\$ 69,306,985</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**

*Balance Sheet  
Governmental Funds  
December 31, 2003*

	General	CDBG Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$ 3,778,951	\$ 16,404	\$ 3,233,398	\$ 7,028,753
Cash and Cash Equivalents:				
In Segregated Accounts	0	0	254,762	254,762
With Fiscal and Escrow Agents	400,000	0	15,641	415,641
Receivables:				
Taxes	3,979,364	0	18,746	3,998,110
Accounts	281,284	0	3,070	284,354
Intergovernmental	1,175,336	2,715,016	1,937,653	5,828,005
Special Assessments	0	619,097	1,647,072	2,266,169
Accrued Interest	29,702	0	509	30,211
Interfund Receivable	537,254	0	6,869	544,123
Materials and Supplies Inventory	0	0	33,653	33,653
Due From Other Funds	0	0	93,757	93,757
Notes Receivable	0	363,691	1,622,686	1,986,377
Prepaid Items	52,927	0	0	52,927
<i>Total Assets</i>	<u>\$ 10,234,818</u>	<u>\$ 3,714,208</u>	<u>\$ 8,867,816</u>	<u>\$ 22,816,842</u>
<b>Liabilities</b>				
Accounts Payable	\$ 871,354	\$ 10,622	\$ 102,728	\$ 984,704
Contracts Payable	77,327	6,000	99,820	183,147
Interfund Payable	0	0	582,254	582,254
Accrued Wages	423,719	10,673	24,850	459,242
Compensated Absences Payable	11,861	0	2,246	14,107
Retainage Payable	0	0	10,758	10,758
Intergovernmental Payable	382,940	13,141	28,430	424,511
Deferred Revenue	3,102,243	3,303,255	3,484,712	9,890,210
Due To Other Funds	0	0	241,220	241,220
<i>Total Liabilities</i>	<u>4,869,444</u>	<u>3,343,691</u>	<u>4,577,018</u>	<u>12,790,153</u>
<b>Fund Balances</b>				
Reserved for Encumbrances	357,922	282,928	265,356	906,206
Reserved for Notes Receivable	0	363,691	1,622,686	1,986,377
Reserved for Inventory	0	0	33,653	33,653
Reserved for Prepays	52,927	0	0	52,927
Unreserved:				
Undesignated (Deficit), Reported in:				
General Fund	4,954,525	0	0	4,954,525
Special Revenue Funds	0	(276,102)	1,739,680	1,463,578
Debt Service Funds	0	0	371,538	371,538
Capital Projects Funds	0	0	257,885	257,885
<i>Total Fund Balances</i>	<u>5,365,374</u>	<u>370,517</u>	<u>4,290,798</u>	<u>10,026,689</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$ 10,234,818</u>	<u>\$ 3,714,208</u>	<u>\$ 8,867,816</u>	<u>\$ 22,816,842</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Reconciliation of Total Governmental Fund Balances to  
 Net Assets of Governmental Activities  
 December 31, 2003*

<b>Total Governmental Funds Balances</b>		\$10,026,689
 <i>Amounts reported for governmental activities in the statement of net assets are different because</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		15,343,709
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Property Taxes	\$ 97,985	
Income Tax	1,375,073	
Intergovernmental	<u>1,835,465</u>	
Total		3,308,523
An internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Net Assets	1,453,764	
Internal Balances	<u>(242,077)</u>	
Total		1,211,687
Due to other governments includes contractually required pension contributions not expected to be paid with expendable available financial resources and therefore not reported in the funds.		(366,339)
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds:		
General Obligation Bonds	(1,795,000)	
Special Assessment Bonds	(215,000)	
Capital Leases Payable	(46,233)	
Bond Anticipation Note	(400,000)	
Compensated Absences	(2,347,618)	
Judgments Payable	(198,500)	
Loans Payable	(7,730)	
Accrued Interest Payable	<u>(10,980)</u>	
Total		<u>(5,021,061)</u>
 <i>Net Assets of Governmental Activities</i>		 <u><u>\$24,503,208</u></u>

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes in Fund Balances*  
*Governmental Funds*  
*For the Year Ended December 31, 2003*

	General	CDBG Special Revenue	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property Taxes	\$ 1,104,643	\$ 0	\$ 0	\$ 1,104,643
Municipal Income Taxes	14,881,354	0	0	14,881,354
Other Local Taxes	0	0	76,481	76,481
Intergovernmental	3,412,137	1,353,193	2,528,634	7,293,964
Charges for Services	2,628,009	82,235	339,316	3,049,560
Fees, Licenses and Permits	627,750	0	0	627,750
Fines and Forfeitures	1,167,669	0	443,580	1,611,249
Special Assessments	0	0	190,182	190,182
Investment Income	505,988	24,061	76,219	606,268
Miscellaneous	26,651	1,933	50,830	79,414
<i>Total Revenues</i>	<u>24,354,201</u>	<u>1,461,422</u>	<u>3,705,242</u>	<u>29,520,865</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	12,988,400	0	871,949	13,860,349
Leisure Time Activities	887,891	0	48,316	936,207
Community Development	720,646	1,586,948	463,654	2,771,248
Transportation	1,614,270	0	970,203	2,584,473
General Government	6,763,330	0	71,055	6,834,385
Capital Outlay	163,205	247,243	1,596,927	2,007,375
Debt Service:				
Principal Retirement	485,181	0	97,000	582,181
Interest and Fiscal Charges	17,867	0	125,710	143,577
<i>Total Expenditures</i>	<u>23,640,790</u>	<u>1,834,191</u>	<u>4,244,814</u>	<u>29,719,795</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>713,411</u>	<u>(372,769)</u>	<u>(539,572)</u>	<u>(198,930)</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Bonds	400,000	0	0	400,000
Proceeds from Disposition of Fixed Assets	10,083	0	0	10,083
Operating Transfers - In	0	0	448,378	448,378
Operating Transfers - Out	(330,778)	0	(117,600)	(448,378)
<i>Total Other Financing Sources (Uses)</i>	<u>79,305</u>	<u>0</u>	<u>330,778</u>	<u>410,083</u>
<i>Net Change in Fund Balances</i>	792,716	(372,769)	(208,794)	211,153
<i>Fund Balances Beginning of Year - Restated (See Note 3)</i>	<u>4,572,658</u>	<u>743,286</u>	<u>4,499,592</u>	<u>9,815,536</u>
<i>Fund Balances End of Year</i>	<u>\$ 5,365,374</u>	<u>\$ 370,517</u>	<u>\$ 4,290,798</u>	<u>\$ 10,026,689</u>

**CITY OF LIMA - ALLEN COUNTY**  
*Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended December 31, 2003*

**Net Change in Fund Balances - Total Governmental Funds** \$ 211,153

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

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

Capital Outlay	\$ 1,531,074	
Depreciation	(531,553)	
Total	999,521	999,521

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

Property Taxes	(65,323)	
Income Tax	795,010	
Intergovernmental	249,302	
Total	978,989	978,989

Other financing sources in the governmental funds that increase long-term liabilities in the statement of net assets.

Bond Anticipation Notes		(400,000)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

582,181

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

1,410

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

Compensated Absences	(87,556)	
Pension Obligation	(13,711)	
Judgments Payable	(88,500)	
Total	(189,767)	(189,767)

The internal service funds used by management to charge the costs of insurance and gasoline to individual funds are not reported in the entity-wide statement of activities. Governmental fund expenditures and related internal service fund revenues are eliminated.

Change in Net Assets	553,181	
Internal Balances	(125,406)	
Total	427,775	427,775

*Change in Net Assets of Governmental Activities* \$ 2,611,262

**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP) and Actual*  
*General Fund*  
*For the Year Ended December 31, 2003*

	<u>Budgeted Amounts</u>			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues</b>				
Property Taxes	\$ 1,091,700	\$ 1,091,700	\$ 1,104,643	\$ 12,943
Municipal Income Taxes	13,850,000	13,750,000	14,695,618	945,618
Intergovernmental	3,248,875	3,248,875	3,399,103	150,228
Charges for Services	2,682,800	2,682,800	2,651,710	(31,090)
Fees, Licenses and Permits	721,000	721,000	678,293	(42,707)
Fines and Forfeitures	1,395,000	1,395,000	1,162,423	(232,577)
Investment Income	615,000	615,000	623,807	8,807
Miscellaneous	40,000	40,000	26,651	(13,349)
<i>Total Revenues</i>	<u>23,644,375</u>	<u>23,544,375</u>	<u>24,342,248</u>	<u>797,873</u>
<b>Expenditures</b>				
Current:				
Security of Persons and Property	13,141,314	13,312,599	12,906,690	405,909
Leisure Time Activities	959,954	969,499	899,065	70,434
Community Development	830,601	834,089	719,702	114,387
Transportation	1,861,804	1,796,094	1,653,345	142,749
General Government	7,509,127	7,291,578	6,801,269	490,309
Capital Outlay	353,977	368,203	332,437	35,766
Debt Service:				
Principal Retirement	485,181	885,181	885,181	0
Interest and Fiscal Charges	17,867	17,867	17,867	0
<i>Total Expenditures</i>	<u>25,159,825</u>	<u>25,475,110</u>	<u>24,215,556</u>	<u>1,259,554</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(1,515,450)</u>	<u>(1,930,735)</u>	<u>126,692</u>	<u>2,057,427</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds of Bonds	400,000	400,000	400,000	0
Proceeds from Disposition of Fixed Assets	10,000	10,000	10,083	83
Operating Transfers - Out	(903,790)	(500,190)	(330,778)	169,412
<i>Total Other Financing Sources (Uses)</i>	<u>(493,790)</u>	<u>(90,190)</u>	<u>79,305</u>	<u>169,495</u>
<i>Net Change in Fund Balance</i>	(2,009,240)	(2,020,925)	205,997	2,226,922
<i>Fund Balance Beginning of Year</i>	3,248,075	3,248,075	3,248,075	0
Prior Year Encumbrances Appropriated	286,787	286,787	286,787	0
<i>Fund Balance End of Year</i>	<u>\$ 1,525,622</u>	<u>\$ 1,513,937</u>	<u>\$ 3,740,859</u>	<u>\$ 2,226,922</u>



**CITY OF LIMA - ALLEN COUNTY**  
*Statement of Revenues, Expenditures and Changes*  
*In Fund Balance - Budget (Non-GAAP) and Actual*  
*CDBG Fund*  
*For the Year Ended December 31, 2003*

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 2,750,000	\$ 2,750,000	\$ 1,395,721	\$ (1,354,279)
Charges for Services	0	0	82,575	82,575
Revolving Loan Payments	0	0	212,834	212,834
Investment Income	0	0	24,061	24,061
Miscellaneous	0	0	1,935	1,935
<i>Total Revenues</i>	<u>2,750,000</u>	<u>2,750,000</u>	<u>1,717,126</u>	<u>(1,032,874)</u>
<b>Expenditures</b>				
Current:				
Community Development	2,379,666	2,338,565	1,746,290	592,275
Capital Outlay	411,323	411,323	247,696	163,627
<i>Total Expenditures</i>	<u>2,790,989</u>	<u>2,749,888</u>	<u>1,993,986</u>	<u>755,902</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(40,989)</u>	<u>112</u>	<u>(276,860)</u>	<u>(276,972)</u>
<i>Net Change in Fund Balance</i>	<u>(40,989)</u>	<u>112</u>	<u>(276,860)</u>	<u>(276,972)</u>
<i>Fund Balance Beginning of Year</i>	(189,351)	(189,351)	(189,351)	0
Prior Year Encumbrances Appropriated	<u>191,769</u>	<u>191,769</u>	<u>191,769</u>	<u>0</u>
<i>Fund Balance End of Year</i>	<u>\$ (38,571)</u>	<u>\$ 2,530</u>	<u>\$ (274,442)</u>	<u>\$ (276,972)</u>

**CITY OF LIMA - ALLEN COUNTY**

*Statement of Net Assets*

*Proprietary Funds*

*December 31, 2003*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Assets</b>					
<i>Current Assets:</i>					
Equity in Pooled Cash and Cash Equivalents	\$ 11,376,611	\$ 9,820,073	\$ 47,713	\$ 21,244,397	\$ 2,060,982
Cash and Cash Equivalents in Segregated Accounts	527,807	54,279	0	582,086	0
Receivables:					
Accounts	1,162,675	1,330,862	383,323	2,876,860	0
Accrued Interest	1,525	158	0	1,683	0
Interfund Receivable	34,545	3,586	0	38,131	0
Materials and Supplies Inventory	72,034	13,674	0	85,708	0
Due from Other Funds	133,635	13,828	0	147,463	0
Prepaid Items	39,695	39,695	0	79,390	0
Unamortized Bond Issuance Costs	100,531	114,570	4,181	219,282	0
<i>Total Current Assets</i>	<u>13,449,058</u>	<u>11,390,725</u>	<u>435,217</u>	<u>25,275,000</u>	<u>2,060,982</u>
<i>Noncurrent Assets:</i>					
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	2,128,013	1,637,093	0	3,765,106	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	522,940	567,010	0	1,089,950	0
Capital Assets:					
Land	1,160,733	576,907	0	1,737,640	0
Depreciable Capital Assets, Net	16,248,081	26,725,000	0	42,973,081	0
<i>Total Noncurrent Assets</i>	<u>20,059,767</u>	<u>29,506,010</u>	<u>0</u>	<u>49,565,777</u>	<u>0</u>
<i>Total Assets</i>	<u>\$ 33,508,825</u>	<u>\$ 40,896,735</u>	<u>\$ 435,217</u>	<u>\$ 74,840,777</u>	<u>\$ 2,060,982</u>

**CITY OF LIMA - ALLEN COUNTY**

*Statement of Net Assets*

*Proprietary Funds*

*December 31, 2003*

	Enterprise Funds				Governmental Activities Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Liabilities</b>					
<i>Current Liabilities:</i>					
Accounts Payable	\$ 144,741	\$ 102,891	\$ 137,325	\$ 384,957	\$ 93,503
Contracts Payable	148,339	101,363	0	249,702	0
Accrued Wages	70,720	54,123	1,823	126,666	0
Compensated Absences Payable	0	25,127	0	25,127	0
Intergovernmental Payable	125,027	64,609	2,135	191,771	0
Accrued Interest Payable	12,077	31,571	581	44,229	0
Claims Payable	0	0	0	0	513,715
Bond Anticipation Notes	2,205,000	5,905,000	0	8,110,000	0
OWDA Loans Payable	0	494,242	0	494,242	0
Bresler Reservoir Termination Agreement	142,082	0	0	142,082	0
General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss)	60,411	50,965	149,433	260,809	0
<i>Total Current Liabilities</i>	<u>2,908,397</u>	<u>6,829,891</u>	<u>291,297</u>	<u>10,029,585</u>	<u>607,218</u>
<i>Current Liabilities Payable from Restricted Assets:</i>					
Revenue Bonds Payable	430,000	345,000	0	775,000	0
Refundable Deposits	252,218	0	0	252,218	0
Accrued Interest Payable	13,856	15,936	0	29,792	0
<i>Total Current Liabilities Payable from Restricted Assets</i>	<u>696,074</u>	<u>360,936</u>	<u>0</u>	<u>1,057,010</u>	<u>0</u>
<i>Long-Term Liabilities:</i>					
Compensated Absences Payable (net of current portion)	402,780	313,549	12,477	728,806	0
OWDA Loans Payable (Net of Current Portion)	0	6,789,510	0	6,789,510	0
Bresler Reservoir Termination Agreement	2,557,482	0	0	2,557,482	0
General Obligation Bonds Payable (Net of Current Portion, and where applicable, of unamortized discount and accounting loss)	1,928,484	2,233,200	0	4,161,684	0
Revenue Bonds Payable (net of current portion)	2,240,000	2,715,000	0	4,955,000	0
<i>Total Long-Term Liabilities</i>	<u>7,128,746</u>	<u>12,051,259</u>	<u>12,477</u>	<u>19,192,482</u>	<u>0</u>
<i>Total Liabilities</i>	<u>10,733,217</u>	<u>19,242,086</u>	<u>303,774</u>	<u>30,279,077</u>	<u>607,218</u>
<b>Net Assets</b>					
Invested in Capital Assets, Net of Related Debt	10,050,355	11,413,990	0	21,464,345	0
Restricted for Other Purposes	1,875,795	1,637,093	0	3,512,888	0
Unrestricted	10,849,458	8,603,566	131,443	19,584,467	1,453,764
<i>Total Net Assets</i>	<u>\$ 22,775,608</u>	<u>\$ 21,654,649</u>	<u>\$ 131,443</u>	<u>44,561,700</u>	<u>\$ 1,453,764</u>

Net assets reported for business-type activities in the statement of net assets are different because they include accumulated overpayments to the internal service funds:

242,077

Net assets of business-type activities

\$ 44,803,777

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**

*Statement of Revenues,  
Expenses and Changes in Fund Net Assets  
Proprietary Funds  
For the Year Ended December 31, 2003*

	Enterprise Funds				Governmental Activities
	Water	Sewer	Refuse	Total	Internal Service Funds
<b>Operating Revenues</b>					
Charges for Services	\$ 8,177,039	\$ 7,772,108	\$ 2,018,881	\$ 17,968,028	\$ 4,293,600
Recycled Sales	0	0	66,800	66,800	0
Other Operating Revenues	527,127	22,189	752	550,068	122,248
<i>Total Operating Revenues</i>	<u>8,704,166</u>	<u>7,794,297</u>	<u>2,086,433</u>	<u>18,584,896</u>	<u>4,415,848</u>
<b>Operating Expenses</b>					
Salaries	2,235,091	1,747,087	55,274	4,037,452	0
Fringe Benefits	918,462	706,279	21,320	1,646,061	0
Claims Expense	0	0	0	0	3,156,391
Other Services and Charges	3,588,367	2,314,695	1,914,905	7,817,967	706,276
Depreciation	1,041,528	1,552,408	0	2,593,936	0
<i>Total Operating Expenses</i>	<u>7,783,448</u>	<u>6,320,469</u>	<u>1,991,499</u>	<u>16,095,416</u>	<u>3,862,667</u>
<i>Operating Income</i>	<u>920,718</u>	<u>1,473,828</u>	<u>94,934</u>	<u>2,489,480</u>	<u>553,181</u>
<b>Non-Operating Revenues (Expenses)</b>					
Gain (loss) on Disposal of Fixed Assets	726	(3,521)	0	(2,795)	0
Investment Income	18,949	6,007	0	24,956	0
Interest and Fiscal Charges	(318,698)	(711,404)	(15,369)	(1,045,471)	0
<i>Total Non-Operating Revenues (Expenses) Before Contributions</i>	<u>(299,023)</u>	<u>(708,918)</u>	<u>(15,369)</u>	<u>(1,023,310)</u>	<u>0</u>
Capital Contributions Tap-in Fees	84,339	0	0	84,339	0
<i>Change in Net Assets</i>	<u>706,034</u>	<u>764,910</u>	<u>79,565</u>	<u>1,466,170</u>	<u>553,181</u>
<i>Net Assets Beginning of Year - Restated (See Note 3)</i>	<u>22,069,574</u>	<u>20,889,739</u>	<u>51,878</u>		<u>900,583</u>
<i>Net Assets End of Year</i>	<u>\$ 22,775,608</u>	<u>\$ 21,654,649</u>	<u>\$ 131,443</u>		<u>\$ 1,453,764</u>

Some amounts reported for business-type activities in the statement of activities are different because a portion of the net expense of the internal service funds is reported with business-type activities.

125,406

Change in net assets of business-type activities

\$ 1,591,576

See accompanying notes to the basic financial statements

**City of Lima - Allen County**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2003

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	\$ 2,394,661	\$ 2,354,462	\$ (126,028)	\$ 4,623,095	\$ 860,814
<b>Cash Flows from Operating Activities</b>					
Cash Received from Customers	8,041,126	7,702,263	1,995,269	17,738,658	0
Cash Received from Interfund Services Provided	0	0	0	0	4,293,600
Other Cash Receipts	527,127	22,189	60,907	610,223	122,397
Cash Payments to Employees for Services	(2,214,895)	(1,733,005)	(54,560)	(4,002,460)	0
Cash Payments for Employee Benefits	(871,863)	(706,834)	(18,528)	(1,597,225)	0
Cash Payments for Other Services and Charges	(3,552,458)	(2,272,471)	(1,955,841)	(7,780,770)	(673,180)
Cash Payments for Claims	0	0	0	0	(2,882,003)
<i>Net Cash Provided by Operating Activities</i>	<u>1,929,037</u>	<u>3,012,142</u>	<u>27,247</u>	<u>4,968,426</u>	<u>860,814</u>
<b>Cash Flows from Noncapital Financing Activities</b>					
Transfers In (Out)	52,240	(52,240)	0	0	0
<i>Net Cash Provided by (Used in) Noncapital Financing Activities</i>	<u>52,240</u>	<u>(52,240)</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Cash Flows from Capital and Related Financing Activities</b>					
Cash Received from Tap-in Fees	84,339	0	0	84,339	0
Proceeds from Sale of Bond Anticipation Notes	2,205,000	5,905,000	0	8,110,000	0
Principal Paid on OWDA Debt	0	(484,262)	0	(484,262)	0
Principal Paid on Revenue Bonds	(405,000)	(315,000)	0	(720,000)	0
Principal Paid on General Obligation Bonds	(60,000)	(55,000)	(140,000)	(255,000)	0
Principal Paid on Bond Anticipation Notes	0	(3,490,000)	0	(3,490,000)	0
Principal Paid on Bresler Reservoir Termination Agreement	(142,082)	0	0	(142,082)	0
Amortization of Bond Discount	4,237	4,035	529	8,801	0
Interest Paid on Debt Obligations	(305,040)	(707,659)	(13,804)	(1,026,503)	0
Payments for Capital Acquisitions	(999,362)	(1,466,339)	0	(2,465,701)	0
<i>Net Cash Provided by (Used in) Capital and Related Financing Activities</i>	<u>382,092</u>	<u>(609,225)</u>	<u>(153,275)</u>	<u>(380,408)</u>	<u>0</u>
<b>Cash Flows from Investing Activities</b>					
Gain on Sale of Assets	726	(3,521)	0	(2,795)	0
Proceeds from Sale of Investments	68,014	7,061	0	75,075	0
Purchase of Investments	(55,532)	(5,674)	0	(61,206)	0
Interest on Investments	18,084	5,919	0	24,003	0
<i>Net Cash Provided by Investing Activities</i>	<u>31,292</u>	<u>3,785</u>	<u>0</u>	<u>35,077</u>	<u>0</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	2,394,661	2,354,462	(126,028)	4,623,095	860,814
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>12,160,710</u>	<u>9,723,993</u>	<u>173,741</u>	<u>22,058,444</u>	<u>1,200,168</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$ 14,555,371</u>	<u>\$ 12,078,455</u>	<u>\$ 47,713</u>	<u>\$ 26,681,539</u>	<u>\$ 2,060,982</u>

(continued)

**City of Lima - Allen County**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2003

	Enterprise Funds				Internal Service Funds
	Water	Sewer	Refuse	Total	
<b>Reconciliation of Operating Gain to Net Cash Provided by Operating Activities</b>					
Operating Income	\$ 920,718	\$ 1,473,828	\$ 94,934	\$ 2,489,480	\$ 553,181
Adjustments:					
Depreciation	1,041,528	1,552,408	0	2,593,936	0
(Increase) Decrease in Assets:					
Accounts Receivable	(141,613)	(69,845)	(30,257)	(241,715)	149
Materials and Supplies Inventory	(15,093)	(1,795)	0	(16,888)	0
Prepaid Items	(3,751)	(3,751)	0	(7,502)	0
Increase (Decrease) in Liabilities:					
Accounts Payable	(62,666)	(43,904)	(40,932)	(147,502)	33,096
Contracts Payable	124,673	71,906	0	196,579	0
Accrued Wages	20,196	14,082	714	34,992	0
Compensated Absences Payable	46,599	(555)	2,008	48,052	0
Retainage Payable	0	0	0	0	0
Intergovernmental Payable	(7,254)	19,768	780	13,294	0
Increase in Claims Payable	0	0	0	0	274,388
Increase in Refundable Deposits	5,700	0	0	5,700	0
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 1,929,037</u>	<u>\$ 3,012,142</u>	<u>\$ 27,247</u>	<u>\$ 4,968,426</u>	<u>\$ 860,814</u>

See accompanying notes to the basic financial statements

**CITY OF LIMA - ALLEN COUNTY**  
*Combining Statement of Assets and Liabilities*  
*Agency Funds*  
*December 31, 2003*

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	<u>Agency</u>
<b>Assets</b>	
Equity Pooled in Cash and Cash Equivalents	\$ 174,215
Cash and Cash Equivalents in Segregated Accounts	400,732
Accounts Receivable	<u>2,378,653</u>
<i>Total Assets</i>	<u><u>2,953,600</u></u>
<b>Liabilities</b>	
Accounts Payable	33,970
Undistributed Monies	2,779,385
Deposits Held and Due to Others	<u>140,245</u>
<i>Total Liabilities</i>	<u><u>\$ 2,953,600</u></u>

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 1: REPORTING ENTITY**

The City of Lima (the “City”) is a home rule municipal corporation, established under the laws of the State of Ohio which operates under its own charter. The municipal government, provided by the charter, operates under a mayor-council form of government. Legislative power is vested in a nine-member council, each elected to four year terms. The Mayor, City Auditor and Director of Law are each elected to four year terms. The Mayor appoints all officers, members of commissions and classified and unclassified positions in the departments under his control. Other elected officials appoint classified and unclassified positions in their departments.

A reporting entity is composed of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City of Lima consists of all funds, departments, boards, and agencies that are not legally separate from the City. The City is segmented into many different activities and smaller accounting entities. These include police force, fire fighting force, street maintenance force, park and recreation system, which includes a swimming pool, a water system, a sewer system, a refuse force, and the Sinking Fund Board of Trustees.

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; or the City is obligated for the debt of the organization. Component units may also include organizations which are fiscally dependent on the City in that the City approves the budget, the levying of taxes or the issuance of debt. There are no component units included in the reporting entity of the City.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***A. Basis of Presentation***

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

***Government-wide Financial Statements*** - The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service fund is also eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program, and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limitations. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

***Fund Financial Statements*** - During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by type.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***B. Fund Accounting***

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

***Governmental Funds*** - Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

***General Fund*** - The general fund accounts for all financial resources except those required to be accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

***Community Development Block Grant Special Revenue Fund*** - The community development block grant (CDBG) special revenue fund is used to account for grant proceeds and expenditures from the Community Development Block Grant provided by the Department of Housing and Urban Development. The fund balance is available to the City for any purpose prescribed in the annual Consolidated Plan filed by the City with the Department of Housing and Urban Development.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

***Proprietary Fund Type*** - Proprietary fund reporting focuses on the determination of operating income, changes in net asset, financial position, and cash flows. The following is the City's proprietary fund type:

***Enterprise Funds*** - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The sewer, water and refuse funds are the City's major enterprise funds.

***Sewer Fund*** - The sewer fund accounts for the provision of sanitary sewer service to the residents and commercial users located within the City.

***Water Fund*** - The water fund accounts for the provision of water service to the residents and commercial users located within the City.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Refuse Fund*** - The refuse fund accounts for the provision of refuse collection and disposal to residential customers within the City.

***Internal Service Funds*** - The internal service funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

***Fiduciary Funds*** - Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency funds account for security deposits, fire bond deposits, Municipal Court activity, building fees and the county law library.

***C. Measurement Focus***

***Government-wide Financial Statements*** - The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the Statement of Net Assets. The Statement of Activities presents increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

***Fund Financial Statements*** - All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

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

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***D. Basis of Accounting***

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

***Revenues - Exchange and Non-Exchange Transactions*** - 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 after year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value 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 7.) 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 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 the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and entitlements, and rentals.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Deferred Revenue*** - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of December 31, 2003, but which were levied to finance fiscal year 2004 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

***Expenses/Expenditures*** - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

***E. Pooled Cash and Cash Equivalents***

Cash received by the City, except cash held by a trustee or fiscal agent and cash in segregated accounts, is pooled in a common group of bank accounts. Monies for all funds are maintained in these accounts. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the combined balance sheet.

The City utilizes a financial institution to service bonded debt as principal and interest payments come due. The balance in this account is presented on the combined balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents" and represents deposits. Cash and cash equivalents that are held separately by the City's sinking fund trustees are recorded on the balance sheet as "Cash and Cash Equivalents in Segregated Accounts." Cash and cash equivalents held separately by fiscal agents which are limited in use due to applicable bond covenants are recorded on the balance sheet as "Cash and Cash Equivalents with Fiscal and Escrow Agents – Restricted."

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments, except for repurchase agreements and non-negotiable certificates of deposit, are reported at fair value, which is based on quoted market prices. Repurchase agreements and non-negotiable certificates of deposit are reported at cost. STAROhio is an investment pool, managed by the Ohio State Treasurer's Office, which allows governments within the State to pool their funds for investment purposes. STAROhio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAROhio are valued at STAROhio's shared price, which is the price the investment could be sold for at December 31, 2003.

The City records all investment income in the General Fund except for interest earned on monies held by trustee in accordance with the bond covenants and federal grants. Investment income credited to the General Fund during 2003 amounted to \$505,988, which includes \$450,329 assigned from other City funds.

For the purposes of the combined statements of cash flows and for presentation on the combined balance sheet, investments of the cash management pool and investments with a maturity of three months or less at the time they are purchased by the City are considered to be cash equivalents.

***F. Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2003, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

***G. Materials and Supplies Inventory***

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. Inventory consists of expendable supplies.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***H. Notes Receivable***

Notes receivable represents the right to receive repayment for certain loans made by the City. The loans are based upon written agreements between the City and the various loan recipients.

***I. Unamortized Bond Issuance Costs***

In governmental activities, bond issuance costs are expended in the current period. Bond issuance costs for proprietary fund types are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method.

***J. Restricted Assets/Liabilities***

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Also, the city has utility deposits from customers that are classified as restricted cash and cash equivalents on the balance sheet because their use is limited to the payment of unpaid utility bills or the refunding of the deposit to the customer.

***K. Capital Assets***

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$2,500 for all types of capital assets. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All reported capital assets, except for land and construction-in-progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Land	N/A	N/A
Buildings	45 - 50 Years	45 - 50 Years
Equipment	5 - 20 Years	5 - 20 Years
Infrastructure	12 - 75 Years	12 - 75 Years
Vehicles	6 - 10 Years	6 - 10 Years
Water and Sewer Lines	30 - 99 Years	30 - 99 Years

The City's infrastructure consists of roads, bridges, curbs and gutters, streets, drainage systems, lighting systems, sewer systems, and water systems.

***Capitalization of Interest***

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The City's policy is to capitalize net interest on construction projects until substantial completion of the project. The amount of capitalized interest equals the difference between the interest cost associated with the tax-exempt borrowing used to finance the project from the date of borrowing until completion of the project and the interest earned from temporary investment of the debt proceeds over the same period. Capitalized interest is amortized on the straight-line basis over the estimated useful life of the asset. The City capitalized additional interest of \$139,246 in 2003.



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***L. Interfund Balances***

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." Interfund loans which do not represent available expendable resources are offset by a fund balance reserve account. These amounts are eliminated in the governmental columns of the statement of net assets, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

On fund financial statements, long-term interfund loans reported as "advances to/from other funds," are equally offset by a fund balance reserve account which indicate that they do not constitute "available expendable financial resources" even though it is a component of net current assets. Repayment is expected to be made within a reasonable time.

***M. Compensated Absences***

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. The City records a liability for all accumulated unused vacation time when earned for all employees with more than one year of service. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will probably be paid as a termination benefit.

The entire compensated absence liability is reported on the government-wide financial statements.

In governmental funds, the liability for unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***N. Accrued Liabilities and Long-term Obligations***

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds. However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current fiscal year. Bonds, capital leases, and long-term loans are recognized as a liability on the government fund financial statements when due.

***O. Net Assets***

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

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

***P. Fund Balance Reserves***

The City reserves those portions of fund balance which are legally segregated for specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation, in future periods. Fund balance reserves are established for encumbrances, notes receivable, inventory of materials and supplies and prepaid items.

In proprietary funds, net assets restricted for other purposes indicates the accumulation of earnings to be used for plant improvement and replacement and operations in accordance with revenue bond covenants.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Q. Operating Revenues and Expenses***

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services for water, sewer and refuse services. Operating expenses are necessary costs incurred to provide the goods or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as non-operating.

***R. Contributions of Capital***

Contributions of capital in proprietary fund financial statements arise from outside contributions of capital assets, tap-in fees to the extent they exceed the cost of the connection to the system, of grants or outside contributions of resources restricted to capital acquisition and construction.

***S. Interfund Activity***

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

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

***T. Extraordinary and Special Items***

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2003.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***U. Estimates***

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

***V. Budgetary Data***

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriations resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level within each department in the general fund and at the object level for all other funds. Budgetary modifications may only be made by resolution of the City Council at the legal level of control.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the Finance Director. The amounts reported as the original budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported as the final budgeted amounts on the budgetary statements reflect the amounts on the amended certificate of estimated resources in effect at the time the final appropriations were enacted by Council.

The appropriations resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND  
BALANCES/NET ASSETS**

*Changes in Accounting Principles* - For 2003, the City has implemented GASB Statement No. 34, “Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments”; GASB Statement No. 37, “Basic Financial Statements for State and Local Governments: Omnibus”, GASB Statement No. 38, “Certain Financial Statement Note Disclosures”, and GASB Interpretation No. 6, “Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements”. At December 31, 2003, there was no effect on fund balance as a result of implementing GASB Statements No. 37 or No. 38.

GASB 34 creates new basic financial statements for reporting on the City’s financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statements split the City’s programs for governmental activities and business-type activities. The beginning net asset amount for governmental activities reflects the change in fund balance for governmental funds at December 31, 2002, caused by the conversion to the accrual basis of accounting and the reclassification of funds based on the guidance provided in Statement No. 34.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice. The City restated the fund liability of compensated absences, reported as “compensated absences”, which had not matured during fiscal year 2003 and has reported prepaid amounts for services not yet consumed.

**CITY OF LIMA – ALLEN COUNTY**  
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**NOTE 3: CHANGE IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCES/NET ASSETS (Continued)**

*Restatement of Fund Balance* - The restatements for GASB Statement No. 34 and GASB Interpretation No. 6 had the following effects on fund balance of the major and nonmajor funds of the City as they were previously reported. The transition from governmental fund balance to net assets of the governmental activities is also presented.

	General	CDBG Special Revenue	Aggregate Nonmajor	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balances, 12/31/02	\$ 4,524,733	\$ 743,286	\$ 4,340,918	\$ 9,608,937
Fund Reclassifications	0	0	158,674	158,674
Fund Balance Restatement (Prepays)	47,925	0	0	47,925
	<u>\$ 4,572,658</u>	<u>\$ 743,286</u>	<u>\$ 4,499,592</u>	<u>9,815,536</u>
GASB 34 Adjustments:				
Capital Assets (restated)				14,344,188
Compensated Absences				(2,260,062)
Internal Service Fund				783,912
Pension Obligations				(352,628)
Long-Term (Deferred) Assets				2,329,534
Accrued Interest Payable				(12,390)
Long-Term Liabilities				<u>(2,756,144)</u>
Governmental Activities Net Assets, 12/31/02				<u>\$ 21,891,946</u>

The only fund reclassification as a result of GASB 34 implementation is an expendable trust fund reclassified as a governmental fund. This added \$158,674 to the governmental funds total.

The following is the restatement of enterprise funds:

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Retained Earnings, 12/31/02	\$ 20,645,010	\$ 20,992,988	\$ 51,878	\$ 41,689,876
Capital Assets Restatement	1,388,620	(139,193)	0	1,249,427
Current Assets (Prepays)	35,944	35,944	0	71,888
	<u>\$ 22,069,574</u>	<u>\$ 20,889,739</u>	<u>\$ 51,878</u>	43,011,191
GASB 34 Adjustments:				
Internal Service Fund				<u>116,671</u>
Business-Type Activities Net Assets, 12/31/02				<u>\$ 43,127,862</u>

**NOTE 4: BUDGETARY BASIS OF ACCOUNTING**

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP basis), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

The Statements of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual presented for the general fund and the CDBG major special revenue fund are presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures/expenses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Cash accounts which are held separately by the City, the Sinking Fund Board of Trustees, and the trustee accounts for the revenue bonds are not budgeted but are recorded on the GAAP basis.
4. Outstanding year-end encumbrances are treated as expenditure/expenses (budget basis) rather than as a reservation of fund balance (GAAP basis).
5. Proceeds from and principal payments on short-term note obligations are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).
6. For business-type funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis).

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 4: BUDGETARY BASIS OF ACCOUNTING (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund and the CDBG major special revenue fund.

**Net Change in Fund Balance**

	General	CDBG
GAAP Basis	\$ 792,716	\$ (372,769)
Adjustments for:		
Revenue Accruals	(11,953)	255,704
Expenditure Accruals	(125,144)	131,050
Encumbrances Outstanding at Year End	(449,622)	(290,845)
Budget Basis	\$ 205,997	\$ (276,860)

**NOTE 5: DEPOSITS AND INVESTMENTS**

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution, or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current two-year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies may be invested in the following:

1. United States Treasury Notes, Bills, Bonds, Notes, or any other obligation or security issued by the United States or any other obligation guaranteed as to principal or interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least 2% and be marked to market daily, and that the term of the agreement must not exceed 30 days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions, and;
6. The State Treasury Asset Reserve (STAR Ohio).

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

The City may also invest any monies not required to be used for a period of six months or more in the following:

1. Bonds of the State of Ohio.
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons.
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by certificate, upon receipt of confirmation of transfer from the custodian.

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments (Including Repurchase Agreements), and Reverse Repurchase Agreements."

At year-end, the carrying amount of the City's deposits was \$9,223,777 and the bank balance was \$10,295,415. Of the bank balance, \$600,000 was covered by federal depository insurance and \$9,695,415 by collateral held by third party trustees in accordance with the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

The City's investments are categorized below to give an indication of the level of custodial risk assumed by the City at year end. Category 1 includes insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered for which the securities are held by the counterparty's trust department or agent in the City's name. Category 3 includes uninsured and unregistered for which the securities are held by the counterparty, or by its trust department or agent but not in the City's name. STAR Ohio and mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Securities	Category			Carrying Value	Fair Value
	1	2	3		
Repurchase Agreements	\$ 0	\$ 0	\$7,869,311	\$ 7,869,311	\$ 7,869,311
Federal Home Loan Bank Agency	0	1,997,240	0	1,997,240	2,010,630
Federal Home Loan Mortgage Corporation	0	3,033,670	0	3,033,670	3,029,310
Federal National Mortgage Association					
Medium Term Notes	0	1,988,102	0	1,988,102	2,002,580
U.S. Treasury Notes	0	1,998,516	0	1,998,516	2,009,370
	<u>\$ 0</u>	<u>\$9,017,528</u>	<u>\$7,869,311</u>	<u>\$ 16,886,839</u>	<u>16,921,201</u>
Bank One Trust Money Market Deposit Account					4,352,876
Huntington Bank Money Market Deposit Account					1,008,411
STAR Ohio					5,510,359
Grand Total					<u>\$ 27,792,847</u>

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. Cash equivalents are defined as investments with original maturities of three months or less and funds included within the City's cash management pool.

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 5: DEPOSITS AND INVESTMENTS (Continued)**

A reconciliation between the classification of cash and investments on the combined financial statements and the classification per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
GASB Statement No. 9	\$ 37,016,624	\$ 0
Investments:		
Repurchase Agreements	(7,869,311)	7,869,311
Federal Home Loan Bank Agency	(2,010,630)	2,010,630
Federal Home Loan Mortgage Corporation	(3,029,310)	3,029,310
Federal National Mortgage Association		
Medium Term Notes	(2,002,580)	2,002,580
U.S. Treasury Notes	(2,009,370)	2,009,370
Bank One Trust Money Market Deposit Account	(4,352,876)	4,352,876
Huntington Bank Money Market Deposit Account	(1,008,411)	1,008,411
STAR Ohio	(5,510,359)	5,510,359
	\$ 9,223,777	\$ 27,792,847
GASB Statement No. 3	\$ 9,223,777	\$ 27,792,847

**NOTE 6: INCOME TAX**

The City levies and collects an income tax of 1.5 percent on all income earned within the City as well as incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax at least quarterly and file a final return annually. Income tax proceeds are used to pay the cost of administering the tax and for General Fund operations and other governmental functions when needed, as determined by Council.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 7: PROPERTY TAXES**

Property taxes include amounts levied against all real and public property, and tangible personal property located in the City. Real property tax revenues received in 2003 represent the collection of 2002 taxes. For 2003, real property taxes were levied after October 1, 2002, on the assessed value as of January 1, 2002, the lien date. These taxes will be collected in and are intended to finance 2003 operations. Assessed values for real property taxes are established by the State statute at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 2003. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property were levied after October 1, 2002, on the assessed values as of December 31, 2002, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2003 (other than public utility property) represent the collection of 2003 taxes. For 2003, tangible personal property taxes were levied after October 1, 2002, on the value as of December 31, 2002, the lien date. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which are measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2003 operations.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 7: PROPERTY TAXES (Continued)**

The full tax rate for all City operations for the year ended December 31, 2003 was 3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2003 property tax receipts were based are as follows:

Category	Assessed Value
Real Estate	
Residential/Agricultural	\$ 179,046,820
Commercial/Industrial	95,455,060
Tangible Personal	61,549,083
Public Utility Real	164,340
Public Utility Personal	18,097,350
Total	\$ 354,312,653

**NOTE 8: RECEIVABLES**

Receivables at December 31, 2003 consisted of taxes, utility accounts, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments, and notes. All receipts are considered to be fully collectible including utility services. A summary of utility accounts receivable is as follows:

Water	\$ 1,162,675
Sewer	1,330,862
Refuse	383,323
Total	\$ 2,876,860

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$2,398,586 with uncollectible of \$412,209 at December 31, 2003. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,986,377.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
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**NOTE 8: RECEIVABLES (Continued)**

A summary of the principal items of intergovernmental receivables follows:

	Amount
Governmental Activities	
Liquor Permit Fees	\$ 4,649
Homestead and Rollback	70,509
Local Government	1,100,178
Motor Vehicle License Tax	167,104
Gasoline Excise Tax	406,307
Home Program Grant	985,355
Community Development	
Block Grant (CDBG)	2,715,016
Weed and Seed FY01 Grant	164,478
Byrne Pace Grant	11,551
2001 JAIBG Grant	2,707
Central Point Buttonbush Grant	43,125
Secure Schools 2002	18,144
Step	21,572
2002 JAIBG Grant	7,807
Weed and Seed FY02 Grant	105,445
Fire EMS	4,058
Total Intergovernmental Receivable	\$ 5,828,005

**NOTE 9: CAPITAL ASSETS**

The capital asset balances of the governmental and business type activities have been restated due to changes in the City's capital asset policy. The threshold for capitalization was increased from \$250 to \$2,500, effective January 1, 2003.

A summary of changes in capital assets due to restatement:

**CITY OF LIMA – ALLEN COUNTY**  
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**NOTE 9: CAPITAL ASSETS (Continued)**

	Balance 12/31/2002	Adjustments	Restated Balance 12/31/2002
<b>Governmental Activities</b>			
<i>Capital Assets, Not Being Depreciated:</i>			
Land	\$ 4,439,361	\$ (356,574)	\$ 4,082,787
Construction in Progress	354,714	0	354,714
<i>Total Capital Assets, Not Being Depreciated</i>	<u>4,794,075</u>	<u>(356,574)</u>	<u>4,437,501</u>
<i>Capital Assets, Being Depreciated:</i>			
Buildings	11,849,130	(618,677)	11,230,453
Improvements	0	486,010	486,010
Machinery and Equipment	4,281,731	(1,030,096)	3,251,635
Furniture and Fixtures	281,396	(237,211)	44,185
Vehicles	4,148,652	(2,594)	4,146,058
<i>Total Capital Assets, Being Depreciated</i>	<u>20,560,909</u>	<u>(1,402,568)</u>	<u>19,158,341</u>
Less: Accumulated Depreciation	<u>0</u>	<u>(9,251,654)</u>	<u>(9,251,654)</u>
<i>Governmental Activities Capital Assets, Net</i>	<u>\$ 25,354,984</u>	<u>\$ (11,010,796)</u>	<u>\$ 14,344,188</u>
	Balance 12/31/2002	Adjustments	Restated Balance 12/31/2002
<b>Business-Type Activities</b>			
<i>Capital Assets, Not Being Depreciated:</i>			
Land	\$ 1,122,423	\$ (14,829)	\$ 1,107,594
Construction in Progress	252,220	0	252,220
<i>Total Capital Assets, Not Being Depreciated</i>	<u>1,374,643</u>	<u>(14,829)</u>	<u>1,359,814</u>
<i>Capital Assets, Being Depreciated:</i>			
Buildings	36,320,873	97,333	36,418,206
Improvements	134,221	370,416	504,637
Machinery and Equipment	17,903,523	(1,327,101)	16,576,422
Furniture and Fixtures	118,487	(98,380)	20,107
Vehicles	3,163,532	(5,034)	3,158,498
Capitalized Interest	2,998,522	0	2,998,522
Intangible Assets	317,988	0	317,988
Sewer Lines	16,487,019	0	16,487,019
Water Lines	11,963,553	2,558,709	14,522,262
<i>Total Capital Assets, Being Depreciated</i>	<u>89,407,718</u>	<u>1,595,943</u>	<u>91,003,661</u>
Less: Accumulated Depreciation	<u>(50,034,476)</u>	<u>(331,689)</u>	<u>(50,366,165)</u>
<i>Business-Type Activities Capital Assets, Net</i>	<u>\$ 40,747,885</u>	<u>\$ 1,249,425</u>	<u>\$ 41,997,310</u>



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 9: CAPITAL ASSETS (Continued)**

A summary of changes in capital assets during 2003 follows:

	Restated Balance 12/31/2002	Additions	Deletions	Balance 12/31/2003
<b>Governmental Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 4,082,787	\$ 312,049	\$ 0	\$ 4,394,836
Construction in progress	354,714	532,117	0	886,831
<i>Total Capital Assets Not Being Depreciated</i>	4,437,501	844,166	0	5,281,667
<i>Capital Assets, Being Depreciated:</i>				
Buildings	11,230,453	29,700	0	11,260,153
Improvements	486,010	36,378	0	522,388
Machinery and equipment	3,251,635	185,541	(29,078)	3,408,098
Furniture and fixtures	44,185	0	0	44,185
Vehicles	4,146,058	130,154	(148,600)	4,127,612
Infrastructure:				
Roads	0	482,814	0	482,814
<i>Total Capital Assets, Being Depreciated</i>	19,158,341	864,587	(177,678)	19,845,250
<i>Less Accumulated Depreciation:</i>				
Buildings	3,341,560	249,340	0	3,590,900
Improvements	84,482	24,616	0	109,098
Machinery and equipment	2,084,786	246,772	(28,382)	2,303,176
Furniture and fixtures	14,375	2,473	0	16,848
Vehicles	3,726,451	174,943	(148,600)	3,752,794
Infrastructure:				
Roads	0	10,392	0	10,392
<i>Total Accumulated Depreciation</i>	9,251,654	708,536	(176,982)	9,783,208
<i>Total capital assets being depreciated, net</i>	9,906,687	156,051	(696)	10,062,042
<i>Total Governmental Activities Capital Assets, Net</i>	\$ 14,344,188	\$ 1,000,217	\$ (696)	\$ 15,343,709

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 9: CAPITAL ASSETS (Continued)**

	Restated Balance 12/31/2002	Additions	Deletions	Balance 12/31/2003
<b>Business-Type Activities:</b>				
<i>Capital Assets Not Being Depreciated:</i>				
Land	\$ 1,107,594	\$ 118,354	\$ 0	\$ 1,225,948
Construction in progress	252,220	264,092	(4,620)	511,692
<i>Total Capital Assets Not Being Depreciated</i>	1,359,814	382,446	(4,620)	1,737,640
<i>Capital Assets, Being Depreciated:</i>				
Improvements	504,637	1,834,097	0	2,338,734
Buildings	36,418,206	423,766	0	36,841,972
Machinery and equipment	16,576,422	915,764	(34,799)	17,457,387
Furniture and fixtures	20,107	0	0	20,107
Vehicles	3,158,498	506,804	(178,118)	3,487,184
Capitalized Interest	2,998,522	139,246	0	3,137,768
Intangible Assets	317,988	0	0	317,988
Sewer lines	16,487,019	464,454	0	16,951,473
Water lines	14,522,262	860,617	(2,310)	15,380,569
<i>Total Capital Assets, Being Depreciated</i>	91,003,661	5,144,748	(215,227)	95,933,182
<i>Less Accumulated Depreciation:</i>				
Improvements	388,040	67,519	0	455,559
Buildings	15,459,529	783,923	0	16,243,452
Machinery and equipment	10,117,101	830,913	(31,277)	10,916,737
Furniture and fixtures	15,622	596	0	16,218
Vehicles	2,416,562	367,175	(176,244)	2,607,493
Capitalized Interest	1,314,842	200,703	0	1,515,545
Intangible Assets	127,195	63,598	0	190,793
Sewer lines	12,749,698	190,737	0	12,940,435
Water lines	7,777,576	298,603	(2,310)	8,073,869
<i>Total Accumulated Depreciation</i>	50,366,165	2,803,767	(209,831)	52,960,101
<i>Total capital assets being depreciated, net</i>	40,637,496	2,340,981	(5,396)	42,973,081
<i>Total Business-Type Capital Assets, Net</i>	\$ 41,997,310	\$ 2,723,427	\$ (10,016)	\$ 44,710,721

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

**NOTE 9: CAPITAL ASSETS (Continued)**

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 139,200
Security of Persons and Property	225,705
Leisure Time Activities	75,610
Community Development	12,822
Transportation	<u>255,198</u>
Total	<u>\$ 708,535</u>

**NOTE 10: RISK MANAGEMENT**

*A. Self Insurance Program*

The City has elected to provide employee medical and life benefits through a self insured program. All funds of the City participate in the program and make payments to the Health Benefits Internal Service Fund based on the amounts needed to pay prior and current year claims. This plan provides a medical plan with a \$100 single and a \$200 family deductible for all employees. Under this program, the fund provides coverage for up to a maximum of \$90,000 for each individual. The City purchases stop-loss coverage for claims in excess of \$90,000 and up to a maximum of \$1,000,000. Settled claims have not exceeded stop-loss coverage for the last three years. The City utilizes a third party administrator to review all claims, which are then paid by the City.

Claims payable is based on the requirements of the Governmental Accounting Standards Board Statement No. 30 "Risk Financing Omnibus," which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount can be reasonably estimated. The estimate was not affected by incremental claim adjustment expenses and does not include other allocated claim adjustment expenses. Claims payable at December 31, 2003, are estimated based on past experience in payment of claims at \$513,715.

		Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	End of Year Liability
	\$	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
2002	\$	371,663	\$ 3,272,467	\$ 3,404,803	\$ 239,327
2003		239,327	3,156,391	2,882,003	513,715

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

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**NOTE 10: RISK MANAGEMENT (Continued)**

*B. Other Insurance Coverage*

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During 2003 the City contracted with a third party for insurance as follows:

<u>Company</u>	<u>Type of Coverage</u>	<u>Deductible</u>
Webb Insurance Agency, Inc.	Building and Contents	*
	Auto Insurance	*
	General Liability	*
	Law Enforcement Officers'	*
	Professional Liability	*
	Auto Liability	*
	Commercial Blanket Bond	*
	Employee Benefit Liability	*
	Uninsured Motorist Coverage	*
	Excess Property	*
	Boiler and Machinery	1,000
	Public Officials Liability	10,000
	Depositor Forgery Bond	None
	Public Official Blanket Bond	None

\* The combined insurance coverage includes a specific occurrence deductible of \$25,000.

Settled claims have not exceeded coverage in any of the past three years and there has not been a significant reduction in coverage from the prior year.

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs. Accidental life insurance is provided to each employee in the amount of \$20,000.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 11: DEFINED BENEFIT PENSION PLANS**

Vacation leave is earned at rates which vary depending upon length of service and standard work week. Current policy permits vacation leave to be carried forward with supervisory approval. City employees are paid for earned, unused vacation leave at the time of termination of employment.

Sick leave is earned at the rate of four and six-tenths hours for every eighty hours worked. Current policy permits sick leave to be accumulated without limit. Each employee at the time of retirement from active service within the City is paid 33 percent of his accrued but unused sick leave, up to a maximum of fifty accrued sick days.

Unpaid compensated absences at year end are reported on the Statement of Net Assets in the amount of \$2,325,614 due within more than one year and \$36,111 due within one year.

**NOTE 12: DEFINED BENEFIT PENSION PLANS**

*A. Public Employees Retirement System*

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer defined benefit plan administered by the Public Employees Retirement Board. PERS 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. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The 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 Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement and public safety. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consists of sheriffs, deputy sheriffs and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9%.

The 2003 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 13.55% of covered payroll. The 2003 employer contribution rate for both the law enforcement and public safety division 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 PERS for the years ended December 31, 2003, 2002 and 2001 were \$1,396,707, \$1,436,473 and \$1,377,820, respectively.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 12: DEFINED BENEFIT PENSION PLANS (Continued)**

*B. Ohio Police and Fire Pension Fund*

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer public employee retirement system administered by the OP&F's Board of Trustees. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information. That report may be obtained by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215.

Plan members are required to contribute 10% of their annual covered salary, while employers are required to contribute 19.5% for police and 24.0% for firefighters. Contributions are authorized by state statute. The City's contributions to the OP&F for the years ending December 31, 2003, 2002 and 2001 were \$1,643,861, \$852,819 and \$723,734, respectively, equal to the required contributions for each year.

**NOTE 13: POSTEMPLOYMENT BENEFITS**

*A. Public Employees Retirement System*

In addition to providing pension benefits through Public Employees Retirement System of Ohio (System), the System provides postretirement 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 survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of postretirement health care based on authority granted by state statute. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2003 employer contribution rate for state employers was 13.31% of covered payroll; 5.00% was the portion that was used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 5.00% was the portion used to fund health care for the year. The 2003 employer rate was 16.70% and 5.00% was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 13: POSTEMPLOYMENT BENEFITS (Continued)**

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on OPERS's latest actuarial review performed as of December 31, 2002, include a return on investments of 8.00%, an annual increase in active employee total payroll of 4.00% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .50% and 6.30% based on additional annual pay increases. Health care premiums were assumed to increase 4.00% annually.

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$18.7 billion and \$8.7 billion, respectively. As of December 31, 2002, the unaudited estimated net assets available for future OPEB payments were \$10.0 billion. The number of active contributing participants was 364,881.

*B. Ohio Police and Fire Pension Fund*

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 cost 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 2003. In addition, since July 1, 1992, most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment. Beginning in 2001, all retirees and survivors have monthly health care contributions.

The City's actual contributions for 2003 that were used to fund postemployment benefits were \$715,079. The OP&F's total health care expenses for the year ended December 31, 2002 (the latest information available) were \$141,028,006, which was net of member contributions of \$12,623,875. The number of OP&F participants eligible to receive health care benefits as of December 31, 2002 was 13,527 for police and 10,396 for firefighters.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
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**NOTE 14: LONG-TERM OBLIGATIONS**

The changes in the City's long-term obligations during 2003 were as follows:

	Interest Rate %	Outstanding 1/1/2003	Additions	(Reductions)	Outstanding 12/31/2003	Amounts Due Within One Year
<b>Governmental Activities</b>						
Special Assessment Bonds:						
1983 B South Main Street CBD	8.72	\$ 4,000	\$ 0	\$ (4,000)	\$ 0	\$ 0
1987 Industry Avenue	7.25	108,000	0	(18,000)	90,000	18,000
1995 Elm/Woodlawn/Pine Street	5.20	115,000	0	(35,000)	80,000	35,000
1996 Market/Collett/Elmwood	5.80	60,000	0	(15,000)	45,000	15,000
Total Special Assessment Bonds		<u>287,000</u>	<u>0</u>	<u>(72,000)</u>	<u>215,000</u>	<u>68,000</u>
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds 4.00-5.80						
Municipal Center Refunding		1,080,000	0	(20,000)	1,060,000	20,000
Parking Facility		740,000	0	(5,000)	735,000	5,000
Total Unvoted General Obligation Bonds		<u>1,820,000</u>	<u>0</u>	<u>(25,000)</u>	<u>1,795,000</u>	<u>25,000</u>
Bond Anticipation Notes:						
Ottawa River Bikeway	1.29	400,000	400,000	(400,000)	400,000	400,000
Total Bond Anticipation Notes		<u>400,000</u>	<u>400,000</u>	<u>(400,000)</u>	<u>400,000</u>	<u>400,000</u>
Other Long-Term Obligations:						
Compensated Absences		2,260,062	101,663	0	2,361,725	36,111
Judgement Payable		110,000	88,500	0	198,500	198,500
Fire Pumper Loan Payable	4.75	49,171	0	(41,441)	7,730	7,730
Capital Leases	6.00	89,973	0	(43,740)	46,233	46,233
Total Other Long-Term Obligations		<u>2,509,206</u>	<u>190,163</u>	<u>(85,181)</u>	<u>2,614,188</u>	<u>288,574</u>
Total Governmental Activities		<u>5,016,206</u>	<u>590,163</u>	<u>(582,181)</u>	<u>5,024,188</u>	<u>781,574</u>
<b>Business-Type Activities</b>						
Revenue Bonds:						
1992 Water Revenue Refunding Bonds 5.10-6.30		3,075,000	0	(405,000)	2,670,000	430,000
1992 Sewer Revenue Refunding Bonds 5.10-6.30		3,375,000	0	(315,000)	3,060,000	345,000
Total Revenue Bonds		<u>6,450,000</u>	<u>0</u>	<u>(720,000)</u>	<u>5,730,000</u>	<u>775,000</u>
Unvoted General Obligation Bonds:						
1999 Various Purpose Refunding Bonds 4.00-5.80						
Refuse Bonds		290,000	0	(140,000)	150,000	150,000
Unamortized Discount		(1,096)	529	0	(567)	(567)
Total Refuse Bonds		<u>288,904</u>	<u>529</u>	<u>(140,000)</u>	<u>149,433</u>	<u>149,433</u>



**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 14: LONG-TERM OBLIGATIONS (Continued)**

	Interest Rate %	Outstanding 1/1/2003	Additions	(Reductions)	Outstanding 12/31/2003	Amounts Due Within One Year
Water Refunding	4.00-5.30	\$ 2,200,000	\$ 0	\$ (60,000)	\$ 2,140,000	\$ 65,000
Unamortized Accounting Loss		(124,225)	3,388	0	(120,837)	(3,670)
Unamortized Discount		(31,117)	849	0	(30,268)	(919)
Total Water Refunding		<u>2,044,658</u>	<u>4,237</u>	<u>(60,000)</u>	<u>1,988,895</u>	<u>60,411</u>
Sewer Refunding	4.00-5.30	2,520,000	0	(55,000)	2,465,000	55,000
Unamortized Accounting Loss		(147,924)	3,229	0	(144,695)	(3,229)
Unamortized Discount		(36,946)	806	0	(36,140)	(806)
Total Sewer Refunding		<u>2,335,130</u>	<u>4,035</u>	<u>(55,000)</u>	<u>2,284,165</u>	<u>50,965</u>
Total Unvoted General Obligation Bonds		<u>4,668,692</u>	<u>8,801</u>	<u>(255,000)</u>	<u>4,422,493</u>	<u>260,809</u>
Bond Anticipation Notes:						
Sanitary Sewer System	1.88	3,490,000	3,260,000	(3,490,000)	3,260,000	3,260,000
Water Revenue Bond Refunding	1.65	0	2,205,000	0	2,205,000	2,205,000
Sewer Revenue Bond Refunding	1.65	0	2,645,000	0	2,645,000	2,645,000
Total Bond Anticipation Notes		<u>3,490,000</u>	<u>8,110,000</u>	<u>(3,490,000)</u>	<u>8,110,000</u>	<u>8,110,000</u>
Other Long-Term Obligations:						
Bresler Termination Agreement	0.0	0	2,841,646	(142,082)	2,699,564	142,082
OWDA Loan	5.50	882,251	0	(220,564)	661,687	220,564
OWDA Loan	3.75	6,885,763	0	(263,698)	6,622,065	273,678
Compensated Absences		705,881	48,052	0	753,933	25,127
Total Other Long-Term Obligations		<u>8,473,895</u>	<u>2,889,698</u>	<u>(626,344)</u>	<u>10,737,249</u>	<u>661,451</u>
Total Business-Type Activities		<u>23,082,587</u>	<u>11,008,499</u>	<u>(5,091,344)</u>	<u>28,999,742</u>	<u>9,807,260</u>
Totals		<u>\$ 28,098,793</u>	<u>\$ 11,598,662</u>	<u>\$(5,673,525)</u>	<u>\$ 34,023,930</u>	<u>\$ 10,588,834</u>

**General Obligation Bonds** – All general obligation bonds are supported by the full faith and credit of the City. General obligation bonds presented as a liability in the statement of net assets will be retired through the debt service fund.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

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**NOTE 14: LONG-TERM OBLIGATIONS (Continued)**

**Special Assessment Bonds** – Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefited from the project. Special assessment monies will be received and the debt will be retired through the Special Assessment Bond Retirement Debt Service Fund. In the event that property owners fail to make their special assessment payments, the City is responsible for providing the resources to meet the annual principal and interest payments. The City also issues special assessments between funds. These assessments due in one year are included in Interfund Receivables/Payables, and the amounts due in excess of one year are included in Due to/from Other Funds on the Balance Sheet. The Debt Service Fund and Capital Projects Fund made principal payments in the amount of \$101,934 and \$113,458, respectively, towards these interfund assessments.

**Judgment Payable** – The judgment payable represents amounts due to Allen County in settlement of a court case involving the jailing of City inmates at the County jail. The judgment will be paid from the General Fund. Judgment payable also includes estimated amounts regarding several arbitration proceedings involving City employees.

**Loans Payable** – The loans payable represent amounts borrowed for the acquisition of computer equipment and a fire truck. The loans will be paid from the General Fund and the Court Computers Capital Projects Fund.

**OWDA Loans** – The OWDA loans payable represent amounts borrowed from the Ohio Water Development Authority for the construction of sewer system improvements. The loans will be paid from Sewer Enterprise Fund revenue.

**Intergovernmental Payable** – The intergovernmental payable, representing the City's contractually required pension contributions, will be paid from the fund which the employees' salaries are paid.

**Bond Anticipation Notes** – The bond anticipation notes represent short-term amounts borrowed by the City to pay for improvements in anticipation of issuing new bonds and repay the current notes with the proceeds. During 2003, the General Fund borrowed \$400,000 for the purpose of paying costs of the Second Phase of the Ottawa River Bikeway and the Sewer Enterprise Fund borrowed \$3,260,000 for the purpose of paying costs to update the City's sanitary sewer system.

During 2003 the Water Enterprise Fund and Sewer Enterprise Fund borrowed \$2,205,000 and \$2,645,000, respectively, for the purpose of refinancing the Enterprise Fund's outstanding revenue bonds.

**Bresler Reservoir Termination Agreement** – In 1968 the City of Lima entered into an agreement with the State of Ohio to construct Bresler Reservoir. In return for their financial contribution to this project, the State retained rights to a portion of the water in the reservoir. In 2003 the City entered into another agreement with the State to pay back the State's share of the original project costs and gain control over all of the water in the reservoir. This agreement is valued at \$2,841,646 and will be paid back in equal, annual installments over a twenty year period at zero percent interest.

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 14: LONG-TERM OBLIGATIONS (Continued)**

*Revenue Refunding Bonds* – The revenue refunding bonds pledge fund income derived from the acquired and constructed assets to pay debt service. The bond indenture has certain restrictive covenants which principally require that bond reserve accounts be maintained and charges for services to customers be in sufficient amounts, as defined, to satisfy the obligations under the indenture. In addition, special provisions exist regarding covenant violations, redemptions of principal, and maintenance of properties.

The revenue refunding bonds maturing on December 1, 2012 are subject to mandatory sinking fund redemption in part by lot. The mandatory redemptions are to occur on December 1 in each of the years 2003 through 2011 to be paid at stated maturity on December 1, 2012 at a redemption price equal to 100 percent of the principal amount redeemed, plus interest accrued to the redemption date, according to the following schedule:

Year	Water	Sewer	Total
2004	\$ 430,000	\$ 345,000	\$ 775,000
2005	405,000	190,000	595,000
2006	435,000	210,000	645,000
2007	460,000	285,000	745,000
2008	490,000	360,000	850,000
2009	450,000	380,000	830,000
2010	0	405,000	405,000
2011	0	430,000	430,000
2012	0	455,000	455,000
Total	<u>\$ 2,670,000</u>	<u>\$ 3,060,000</u>	<u>\$ 5,730,000</u>

A portion of the bonds maturing on or after December 1, 2003 are subject to optional redemption at the direction of the City, either in whole or in part in integral multiples of \$5,000 on any June 1 or December 1, commencing December 1, 2002 at the redemption prices (expressed as percentages of the principal amount redeemed) set forth below:

	Redemption Prices	
	Water	Sewer
Redemption dates (dates inclusive)		
December 1, 2003 through November 30, 2004	101%	101%
December 1, 2004 and thereafter	100%	100%

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 14: LONG-TERM OBLIGATIONS (Continued)**

The annual requirements to retire governmental activities debt are as follows:

	General Obligation		Special Assessments		Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 25,000	\$ 92,665	\$ 68,000	\$ 13,295	\$ 7,730	\$ 46	\$ 100,730	\$ 106,006
2005	180,000	91,503	68,000	9,300	0	0	248,000	100,803
2006	185,000	83,043	43,000	5,305	0	0	228,000	88,348
2007	195,000	74,162	18,000	2,610	0	0	213,000	76,772
2008	200,000	66,705	18,000	1,305	0	0	218,000	68,010
2009-2013	560,000	191,861	0	0	0	0	560,000	191,861
2014-2018	350,000	95,700	0	0	0	0	350,000	95,700
2019-2023	100,000	5,800	0	0	0	0	100,000	5,800
<b>Total</b>	<b>\$1,795,000</b>	<b>\$ 701,439</b>	<b>\$ 215,000</b>	<b>\$ 31,815</b>	<b>\$ 7,730</b>	<b>\$ 46</b>	<b>\$2,017,730</b>	<b>\$ 733,300</b>

The annual requirements to retire business-type activities debt are as follows:

	General Obligation					
	Reveune Bonds		(Gross)		OWDA Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 775,000	\$ 357,504	\$ 270,000	\$ 240,454	\$ 494,244	\$ 279,146
2005	595,000	312,166	235,000	227,900	504,602	256,655
2006	645,000	274,678	245,000	216,856	515,354	233,773
2007	745,000	234,046	320,000	205,095	305,948	213,517
2008	850,000	187,110	395,000	189,576	317,529	201,937
2009-2013	2,120,000	299,248	3,290,000	469,761	1,777,287	820,035
2014-2018	0	0	0	0	2,140,119	457,222
2019-2023	0	0	0	0	1,228,669	69,967
<b>Total</b>	<b>\$ 5,730,000</b>	<b>\$ 1,664,752</b>	<b>\$ 4,755,000</b>	<b>\$ 1,549,642</b>	<b>\$ 7,283,752</b>	<b>\$ 2,532,252</b>

	Bresler			
	Termination Agreement		Total	
	Principal	Interest	Principal	Interest
2004	\$ 142,082	\$ 0	\$ 1,681,326	\$ 877,104
2005	142,082	0	1,476,684	796,721
2006	142,082	0	1,547,436	725,307
2007	142,082	0	1,513,030	652,658
2008	142,082	0	1,704,611	578,623
2009-2013	710,410	0	7,897,697	1,589,044
2014-2018	710,410	0	2,850,529	457,222
2019-2023	568,334	0	1,797,003	69,967
<b>Total</b>	<b>\$ 2,699,564</b>	<b>\$ 0</b>	<b>\$ 20,468,316</b>	<b>\$ 5,746,646</b>

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

**NOTE 15: INTERFUND TRANSACTIONS**

***A. Interfund Transactions***

As of December 31, 2003, balance sheet receivable and payables that resulted from cash advances were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Due to Other Funds</u>	<u>Due from Other Funds</u>
Governmental Activities				
General	\$ 537,254	\$ 0	\$ 0	\$ 0
Other Governmental Funds:				
STEP	0	10,590	0	0
Byrne (Pace)	0	9,221	0	0
2001 Weed and Seed	0	188,675	0	0
2001 JB	0	3,736	0	0
2003 Weed and Seed	0	95,634	0	0
Issue II	0	45,000	0	0
Secure Schools 2003	0	7,437	0	0
Ottawa River Phase II	0	221,961	0	0
Debt Service	6,869	0	0	93,757
Capital Projects	0	0	241,220	0
Business-Type Activities				
Water	34,545	0	0	133,635
Sewer	3,586	0	0	13,828
Totals	<u>\$ 582,254</u>	<u>\$ 582,254</u>	<u>\$ 241,220</u>	<u>\$ 241,220</u>

***B. Reconciliation of Interfund Transfers***

	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 0	\$ 330,778
Other Governmental Funds:		
Weed/Property Cleanup	75,000	
Street Repair	110,000	
Debt Service	145,778	117,600
Capital Projects	117,600	0
Totals	<u>\$ 448,378</u>	<u>\$ 448,378</u>

**CITY OF LIMA – ALLEN COUNTY**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**DECEMBER 31, 2003**

**NOTE 16: DEFERRED REVENUE**

Deferred revenue at December 31, 2003 consisted of the following:

	Statement of Net Assets	Balance Sheet
Property Taxes Receivable	\$ 675,151	\$ 773,136
Income Taxes Receivable	0	1,375,073
Grants Receivable	3,640,367	5,475,832
Special Assessments Receivable	2,266,169	2,266,169
Deferred Revenue	\$ 6,581,687	\$ 9,890,210

**NOTE 17: CAPITALIZED LEASES - LESSEE DISCLOSURE**

In 1998, the City entered into a new lease for the acquisition of equipment. This lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases," which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee.

The capital asset acquired by the lease has been capitalized in the governmental activities in the amount of \$242,570, which is equal to the present value of the future minimum lease payments at the time of acquisition. A corresponding liability is recorded and is reduced for each required principal payment.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2003:

Year Ending December 31,	Equipment
2004	\$ 48,872
Less: amount representing interest	(2,639)
Present value of minimum lease payments	\$ 46,233

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

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**NOTE 18: CONTRACTUAL COMMITMENTS**

As of December 31, 2003, the City had contractual commitments for the following projects:

	Contractual Commitment	Expended	Balance 12/31/2003
Jones & Henry - Engineering for WWTP Laboratory	\$ 104,500	\$ 84,140	\$ 20,360
Kinstle-Sterling - Single Axle DumpTruck w/Plow	77,365	0	77,365
Emergency Vehicles, Inc. - Heavy Rescue Vehicle	272,300	245,070	27,230
Bassett Landscape - Design Services for ORB Phase II	15,000	9,000	6,000
Shelly Co. - High St/Spartan Way Reconstruction	133,063	81,841	51,222
New Tech - Roof Replacement - WWTP	23,375	0	23,375
Interdyne Corp. - Sludge Removal	120,000	0	120,000
Synagro - Digester Cleaning	117,000	0	117,000
LJB Inc. - Reconstruction of Jackson St Design	37,235	0	37,235
Tuttle Construction - New Utilities Field Services Building	2,259,000	0	2,259,000
Lima Ford - Seven New Pickup Trucks for Utilities Dept.	<u>184,022</u>	<u>0</u>	<u>184,022</u>
 Totals	 <u>\$ 3,342,860</u>	 <u>\$ 420,051</u>	 <u>\$ 2,922,809</u>

**NOTE 19: CONTINGENT LIABILITIES**

***A. Grants***

The City received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the overall financial position of the City at December 31, 2003.

***B. Litigation***

As of December 31, 2003, the City was a party to various legal proceedings seeking damages or injunctive relief, arising in the course of ordinary business. The ultimate disposition of these proceedings is not presently determinable, but will not, in the opinion of the City Attorney, have a material adverse effect on the overall financial condition of the City.

**CITY OF LIMA – ALLEN COUNTY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2003**

**NOTE 20: ACCOUNTABILITY & COMPLIANCE**

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2003.

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Weed/Property Cleanup	\$ 199,887	\$ 200,000	\$ (113)
LLEBG Block Grant	123,073	125,000	(1,927)
Byrne (PACE)	40,475	42,526	(2,051)
2001-WX-QX-0157 Weed/Seed	179,514	262,000	(82,486)
Ottawa River Phase II	0	1,942,169	(1,942,169)

Section 5705.10, Revised Code, states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. The City had two Special Revenue funds with a deficit cash balance on a budgetary basis at year end. On a BAAP basis, the deficit cash is reported as an interfund payable to the General Fund.

<u>Fund</u>	<u>Deficit Cash Balance</u>
Selective Traffic Enforcement Program	\$ 10,590
Byrne (PACE) 2000-DB-B02-7341	9,221
2001-WS-QX-0157 Weed/Seed 2	188,675
2001-JB-013-A049	3,736
2003-WX-QX-0007 Weed/Seed 3	95,634
Secure Schools 2002 Grant	7,437
Ottawa River Phase II	221,961



# Rea & Associates, Inc.

## ACCOUNTANTS AND BUSINESS CONSULTANTS

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

Mayor and Members of Council  
City of Lima  
Lima, Ohio

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lima, Ohio (the City) as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 19, 2004. 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.

#### 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 an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weakness. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated August 19, 2004.

#### Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of basic 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 we described in the accompanying schedule of findings and questioned costs as items 03-1 and 03-2. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated August 19, 2004.

This report is intended solely for the information and use of the City's management, the Ohio Auditor of State and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

August 19, 2004

# Rea & Associates, Inc.

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ACCOUNTANTS AND BUSINESS CONSULTANTS

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

Mayor and Members of Council  
City of Lima  
Lima, Ohio

## Compliance

We have audited the compliance of City of Lima, 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 each of its major Federal programs for the year ended December 31, 2003. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the City'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 with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we 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 each of its major Federal programs for the year ended December 31, 2003. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

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

Page 2

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.

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

This report is intended solely for the information and use of the City's management, the Ohio Auditor of State and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Rea & Associates, Inc.*

August 19, 2004

**CITY OF LIMA, OHIO**  
**Schedule of Expenditures of Federal Awards**  
**Year ended December 31, 2003**

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Receipts	Federal Disbursements
<b>U. S. Department of Housing and Urban Development</b>				
Direct Programs:				
Community Development Block Grant	14.218	MC-39-0014	\$ 1,391,480	\$ 1,377,148
HOME Renewal Program	14.239	MC-39-0219	223,449	235,298
Total U.S. Department of Housing and Urban Development			<u>1,614,929</u>	<u>1,612,446</u>
<b>U.S. Department of Justice</b>				
Direct Programs:				
Weed & Seed Core	16.595	WS-QX	230,077	495,143
Asset for Forfeiture	16.000	N/A	65,291	1,261
Juvenile Accountability and Incentive Block Grant	16.523	JB-013-A049	27,215	28,241
Secure Schools	16.710	2002-CK-WX-0276	54,356	61,793
Law Enforcement Block Grant	16.592	LB-VX-3299	55,959	114,958
Total Direct Programs			432,898	701,396
Pass through Programs:				
Ohio Department of Justice Byrne Grant	16.540	DG-BO2-7032	30,975	40,196
Total U.S. Department of Justice			<u>463,873</u>	<u>741,592</u>
<b>U.S. Department of Transportation</b>				
Pass through Programs:				
Selective Traffic Enforcement Program	20.600	3183.00	18,729	29,319
Total U.S. Department of Transportation			<u>18,729</u>	<u>29,319</u>
<b>Total Federal Financial Assistance</b>			<u><u>\$ 2,097,531</u></u>	<u><u>\$ 2,383,357</u></u>

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards

## **CITY OF LIMA, OHIO**

### Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2003

**(1) General**

The accompanying schedule of expenditures of federal awards (the Schedule) presents activity of all federal financial assistance programs of the City of Lima, Ohio (the City). The City's reporting entity is defined in note 1 to the City's general purpose financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies are included on the schedule.

**(2) Basis of Accounting**

The accompanying schedule of expenditures of federal awards is presented using the cash basis of accounting. Accordingly, expenditures are recognized when paid (disbursed).

**CITY OF LIMA, OHIO**

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2003

**(1) Summary of Auditors' Results:**

(a) Type of report issued on the basic financial statements	<b>Unqualified</b>
(b) Reportable conditions in internal control were disclosed by the audit of the financial statements	<b>No</b>
Material weaknesses	<b>No</b>
(c) Noncompliance which is material to the basic financial statements	<b>Yes</b>
(d) Reportable conditions in internal controls over major programs	<b>No</b>
Material weaknesses	<b>No</b>
(e) Type of report issued on compliance for major programs	<b>Unqualified for Community Development Block Grant and Weed and Seed Grant</b>
(f) Any audit findings which are required to be reported under Section 510(s) of OMB Circular A-133	<b>No</b>
(g) Major Programs	<b>Community Development Block Grant (CDBG) (CFDA #14.218)</b> <b>Weed &amp; Seed Grant (CFDA #16.595)</b>
(h) Dollar threshold used to distinguish between Type A and Type B programs	<b>\$300,000</b>
(i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133	<b>No</b>

**CITY OF LIMA, OHIO**

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2003

**(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:**

**Finding 03-1 Ohio Revised Code Section 5705.39 (repeat of 02-1)**

Ohio Rev. Code Section 5705.39 states the total appropriations from each fund should not exceed the total estimated revenues of the fund. The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2003.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Weed/Property Cleanup	\$ 199,887	\$ 200,000	\$( 113)
LLEBG Block Grant	123,073	125,000	( 1,927)
Byrne (PACE)	40,475	42,526	( 2,051)
2001-WX-QX-0157 Weed/Seed	179,514	262,000	( 82,486)
Ottawa River Phase II	0	1,942,169	(1,942,169)

**Finding 03-2 Ohio Revised Code Section 5705.10**

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. As of December 31, 2003.

<u>Fund</u>	<u>Deficit Cash Balance</u>
Selective Traffic Enforcement Program	\$ 10,590
Byrne (PACE) 2000-DB-B02-7341	9,221
2001-WS-QX-0157 Weed/Seed 2	188,675
2001-JB-013-A049	3,736
2003-WS-QX-0007 Weed/Seed 3	95,634
Secure Schools 2002 Grant	7,437
Ottawa River Phase II	221,961

**(3) Findings and Questioned Costs for Federal Awards:**

None

**CITY OF LIMA, OHIO**

Part IV – Summary Schedule of Prior Audit Findings

Year ended December 31, 2003

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2002-001	Section 5705.39 of the Ohio Revised Code states the total appropriations from each fund should not exceed the total estimated revenues of the fund. Several funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2002.	No	See Corrective Action Plan
2002-002	Section 5705.41(B) of the Ohio Revised Code states no subdivision is to expend money unless it has been appropriated.	No	Partially corrected amounts over expended this year are not material. Citation moved to management letter.
2002-003	Section 5705.10 of the Ohio Revised Code states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. The Street Repair and 2000-WS-QX-0170, W&S FY00 Core and 2001-WS-QX-0157 Weed/Seed 2 special revenue funds had a deficit cash balances.	No	See Corrective Action Plan
2002-004	Timely and substantive reconciliation of accounting records for credit card expenditures is a critical component of a system of internal control, as well as of timely and accurate financial reporting. During our audit we noted that the City has a large number of credit cards distributed throughout various departments. The City attempted to reconcile expenditures made during 2002 using these cards, but on numerous occasions was unable to obtain sufficient supporting documentation.	Yes	N/A



**CITY OF LIMA, OHIO**

Part IV – Summary Schedule of Prior Audit Findings

Year ended December 31, 2003

<b>Finding Number</b>	<b>Finding Summary</b>	<b>Fully Corrected?</b>	<b>Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain:</b>
2002-005	The Federal Register §300 states that it is the auditee’s responsibility to prepare the Schedule of Expenditures of Federal Awards (Schedule) and the Schedule should be a complete listing of federal awards, including the related expenditures for the year and the CFDA number. The City has no monitoring system to ensure that all federal awards are properly identified and reported on the schedule.	Yes	N/A
2002-006	<u>24CFR92.207 Eligible Administrative and Planning Costs</u> provides that a participating jurisdiction may expend, for payment of reasonable administrative and planning costs of the HOME program, an amount of HOME funds that is not more than ten percent of the fiscal year HOME basic formula allocation. The City did not pay administrative expenses timely..	Yes	N/A
2002-007	When required by the Davis-Bacon Act, the Department of Labor’s (DOL) government-wide implementation of the Davis-Bacon Act, or the Federal program legislation, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of \$2,000 financed by Federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the DOL (40 USC 276a-276a-7). The City did not have set procedures to be followed in order to guarantee compliance with the Bacon-Davis Act.	Yes	N/A

**CITY OF LIMA, OHIO**  
**CORRECTIVE ACTION PLAN**  
**OMB CIRCULAR A-133 §.315(c)**  
**FOR THE YEAR ENDED DECEMBER 31, 2003**

**Responsible Contact Person – Randy Bartels, Director of Audit Services**

**Finding 03-1 Ohio Revised Code Section 5705.39 (repeat of 02-1)**

Ohio Rev. Code Section 5705.39 states the total appropriations from each fund should not exceed the total estimated revenues of the fund. The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2003.

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Weed/Property Cleanup	\$ 199,887	\$ 200,000	\$( 113)
LLEBG Block Grant	123,073	125,000	( 1,927)
Byrne (PACE)	40,475	42,526	( 2,051)
2001-WX-QX-0157 Weed/Seed	179,514	262,000	( 82,486)
Ottawa River Phase II	0	1,942,169	(1,942,169)

**Corrective Actions Taken or Planned:**

The City Auditor’s Office will monitor appropriations against available resources, on an ongoing basis, to ensure appropriations do not exceed estimated available resources. The responsibility for monitoring the appropriations belongs to the Director of Audit Services.

**Finding 03-2 Ohio Revised Code Section 5705.10 (repeat of 02-3)**

Ohio Rev. Code Section 5705.10 states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. As of December 31, 2003.

<u>Fund</u>	<u>Deficit Cash Balance</u>
Selective Traffic Enforcement Program	\$ 10,590
Byrne (PACE) 2000-DB-B02-7341	9,221
2001-WS-QX-0157 Weed/Seed 2	168,675
2001-JB-013-A049	3,736
2003-WS-QX-0007 Weed/Seed 3	95,634
Secure Schools 2002 Grant	7,437
Ottawa River Phase II	221,961

**Corrective Actions Taken or Planned:**

Beginning with the 2003 fiscal year, the City will transfer the necessary cash to funds with negative cash balances at the end of the year. This policy will apply to all funds that have non-reimbursable funding sources. For all funds that have negative cash balances due to reimbursable funds not being received, the City will consider the allowable amount to be received before transferring cash to those funds. These actions will be handled by the Auditor’s Office and monitored by the Director of Audit Services.



**Auditor of State  
Betty Montgomery**

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**CITY OF LIMA**

**ALLEN 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  
FEBRUARY 10, 2005**