



CITY OF LIMA, OHIO
General Purpose Financial Statements

December 31, 1998

(With Independent Auditors' Report Thereon)

CITY OF LIMA, OHIO

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STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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The Honorable City Mayor
City of Lima
Lima, Ohio

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

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



JIM PETRO
Auditor of State

March 20, 2000



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Independent Auditors' Report

Members of City Council
City of Lima, Lima Ohio

We have audited the accompanying general purpose financial statements of the City of Lima, Ohio (the City), as of and for the year ended December 31, 1998, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City as of December 31, 1998, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the general purpose financial statements, the City adopted Governmental Accounting Standards Board Statement No. 31 "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*".

As discussed in Note 3 to the general purpose financial statements, the City adopted Governmental Accounting Standards Board Statement No. 32 "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*" effective September 1, 1998.





In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2000 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

KPMG LLP

January 14, 2000

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City of Lima, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 1998

Assets and Other Debits	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets:				
Equity in Pooled Cash and Cash Equivalents	\$2,143,048	\$1,144,780	\$34,164	\$445,431
Cash and Cash Equivalents in Segregated				
Accounts	0	0	77,351	0
Cash and Cash Equivalents with Fiscal and				
Escrow Agents	0	0	97,581	0
Investments	0	0	160,866	0
Receivables:				
Taxes	2,888,325	9,720	0	0
Accounts	335,692	2,860	0	0
Intergovernmental	403,389	1,016,403	0	26,198
Special Assessments	0	647,189	1,449,963	0
Accrued Interest	62,514	0	1,545	0
Interfund Receivable	487,206	1,407	64,837	0
Materials and Supplies Inventory	0	22,204	0	0
Notes Receivable	0	1,507,635	0	0
Prepaid Items	33,738	0	0	0
Unamortized Bond Issue Costs	0	0	0	0
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	0	0	0	0
Cash and Cash Equivalents with Fiscal and				
Escrow Agents	0	0	0	0
Advances to Other Funds	0	0	0	0
Fixed Assets (net, where applicable, of accumulated depreciation)	0	0	0	0
Other Debits:				
Amount Available in Debt Service Fund for				
Retirement of Special Assessment Bonds	0	0	0	0
Amount to be Provided from General				
Governmental Resources	0	0	0	0
Amount to be Provided from Special				
Assessments	0	0	0	0
Total Assets and Other Debits	\$6,353,912	\$4,352,198	\$1,886,307	\$471,629

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$1,905,918	\$181,360	\$235,994	\$0	\$0	\$6,090,695
536,430	47,110	267,085	0	0	927,976
0	0	0	0	0	97,581
94,055	0	20,815	0	0	275,736
0	0	0	0	0	2,898,045
2,651,256	107,000	0	0	0	3,096,808
14,000	0	0	0	0	1,459,990
0	0	0	0	0	2,097,152
372	0	80	0	0	64,511
0	0	0	0	0	553,450
87,044	0	0	0	0	109,248
0	0	0	0	0	1,507,635
51,648	0	0	0	0	85,386
278,152	0	0	0	0	278,152
11,491,080	0	0	0	0	11,491,080
	0				
1,629,406	0	0	0	0	1,629,406
372,240	0	0	0	0	372,240
26,994,985	0	0	16,583,830	0	43,578,815
0	0	0	0	338,763	338,763
0	0	0	0	4,896,161	4,896,161
0	0	0	0	731,973	731,973
<u>\$46,106,586</u>	<u>\$335,470</u>	<u>\$523,974</u>	<u>\$16,583,830</u>	<u>\$5,966,897</u>	<u>\$82,580,803</u>

(continued)

City of Lima, Ohio
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of December 31, 1998
 (Continued)

Liabilities, Fund Equity and Other Credits	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities:				
Accounts Payable	\$570,324	\$233,817	\$0	\$17,289
Contracts Payable	0	346,762	0	0
Interfund Payable	1,407	482,151	64,837	5,055
Accrued Wages	594,971	70,977	0	1,393
Compensated Absences Payable	1,464	0	0	0
Retainage Payable	0	13,845	0	0
Intergovernmental Payable	360,232	43,655	0	924
Deferred Revenue	1,585,685	648,596	1,449,963	0
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	6,426	0	0
Matured Bonds and Interest Payable	0	0	32,744	0
Claims Payable	0	0	0	0
Loans Payable	0	0	0	0
Payable from Restricted Assets:				
Revenue Bonds Payable	0	0	0	0
Refundable Deposits	0	0	0	0
Interest Payable	0	0	0	0
Judgements Payable	200,000	0	0	0
Advances from Other Funds	0	0	0	0
Capital Leases Payable	0	0	0	0
OWDA Loans Payable	0	0	0	0
Police and Fire Pension Liability	0	0	0	0
General Obligation Bonds Payable	0	0	0	0
Revenue Bonds Payable	0	0	0	0
Special Assessment Debt with Governmental Commitment	0	0	0	0
Total Liabilities	3,314,083	1,846,229	1,547,544	24,661
Fund Equity and Other Credits:				
Investment in General Fixed Assets	0	0	0	0
Contributed Capital	0	0	0	0
Retained Earnings:				
Reserved:				
Reserved for Plant Improvement and Replacement	0	0	0	0
Reserved for Operations	0	0	0	0
Unreserved (Deficit)	0	0	0	0
Fund Balance:				
Reserved for Encumbrances	55,416	3,477,345	0	0
Reserved for Materials and Supplies Inventory	0	22,204	0	0
Reserved for Notes Receivable	0	1,507,635	0	0
Unreserved (Deficit)	2,984,413	(2,501,215)	338,763	446,968
Total Fund Equity (Deficit) and Other Credits	3,039,829	2,505,969	338,763	446,968
Total Liabilities, Fund Equity and Other Credits	\$6,353,912	\$4,352,198	\$1,886,307	\$471,629

See Accompanying Notes to the General Purpose Financial Statements

Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Obligations	
\$777,137	\$0	\$1,807	\$0	\$0	\$1,600,374
0	0	0	0	0	346,762
0	0	0	0	0	553,450
216,057	0	0	0	0	883,398
659,190	0	0	0	2,021,366	2,682,020
0	0	0	0	0	13,845
197,483	0	8,993	0	569,527	1,180,814
0	0	0	0	0	3,684,244
0	0	287,980	0	0	287,980
0	0	109,524	0	0	115,950
0	0	0	0	0	32,744
0	576,212	0	0	0	576,212
0	0	0	0	217,294	217,294
545,000	0	0	0	0	545,000
227,970	0	0	0	0	227,970
70,463	0	0	0	0	70,463
0	0	0	0	110,000	310,000
372,240	0	0	0	0	372,240
1,241	0	0	0	264,377	265,618
1,764,507	0	0	0	0	1,764,507
0	0	0	0	678,597	678,597
0	0	0	0	1,035,000	1,035,000
13,345,000	0	0	0	0	13,345,000
0	0	0	0	1,070,736	1,070,736
18,176,288	576,212	408,304	0	5,966,897	31,860,218
0	0	0	16,583,830	0	16,583,830
11,354,286	0	0	0	0	11,354,286
1,600,000	0	0	0	0	1,600,000
2,050,000	0	0	0	0	2,050,000
12,926,012	(240,742)	0	0	0	12,685,270
0	0	0	0	0	3,532,761
0	0	0	0	0	22,204
0	0	0	0	0	1,507,635
0	0	115,670	0	0	1,384,599
27,930,298	(240,742)	115,670	16,583,830	0	50,720,585
\$46,106,586	\$335,470	\$523,974	\$16,583,830	\$5,966,897	\$82,580,803

City of Lima, Ohio
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Fund Types and Expendable Trust Fund
For the Year Ended December 31, 1998

	Governmental Fund Type			Fiduciary	Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects		Expensible Trust
Revenues:						
Property Taxes	\$1,075,978	\$0	\$0	\$0	\$0	\$1,075,978
Municipal Income Tax	12,235,770	0	0	0	0	12,235,770
Other Local Taxes	0	45,040	0	0	0	45,040
Intergovernmental	2,903,041	5,331,792	0	626,546	0	8,861,379
Charges for Services	1,909,278	272,285	0	0	0	2,181,563
Fees, Licenses and Permits	546,748	13,754	0	0	0	560,502
Fines and Forfeitures	1,271,601	126,611	0	314,716	0	1,712,928
Special Assessments	0	0	273,333	18,153	0	291,486
Investment Income	942,273	66,728	16,590	0	0	1,025,591
Miscellaneous	859,533	160,834	0	0	76,668	1,097,035
Total Revenues	21,744,222	6,017,044	289,923	959,415	76,668	29,087,272
Expenditures:						
Current:						
Security of Persons and Property	11,148,780	2,062,104	0	0	0	13,210,884
Leisure Time Activities	789,156	66,463	0	0	0	855,619
Community Environment	645,852	1,849,462	0	0	0	2,495,314
Transportation	1,393,290	2,298,521	0	0	0	3,691,811
General Government	5,187,203	59,374	0	0	5,527	5,252,104
Capital Outlay	1,068,366	0	0	918,981	0	1,987,347
Debt Service:						
Principal Retirement	86,763	0	261,726	79,238	0	427,727
Interest and Fiscal Charges	46,816	0	152,557	6,308	0	205,681
Total Expenditures	20,366,226	6,335,924	414,283	1,004,527	5,527	28,126,487
Excess of Revenues Over (Under) Expenditures	1,377,996	(318,880)	(124,360)	(45,112)	71,141	960,785
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	128,000	0	128,000
Sale of Fixed Assets	15,472	0	0	0	0	15,472
Inception of Capital Lease	242,570	0	0	0	0	242,570
Operating Transfers - In	0	170,000	139,596	0	0	309,596
Operating Transfers - Out	(309,596)	0	0	0	0	(309,596)
Total Other Financing Sources (Uses)	(51,554)	170,000	139,596	128,000	0	386,042
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing (Uses)	1,326,442	(148,880)	15,236	82,888	71,141	1,346,827
Fund Balances at Beginning of Year (Restated Note 3)	1,718,410	2,660,965	323,527	364,080	44,529	5,111,511
Decrease in Reserve for Inventory	(5,023)	(6,116)	0	0	0	(11,139)
Fund Balances at End of Year	\$3,039,829	\$2,505,969	\$338,763	\$446,968	\$115,670	\$6,447,199

See Accompanying Notes to the General Purpose Financial Statements

City of Lima, Ohio
Combined Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund
For The Year Ended December 31, 1998

	General Fund			Special Revenue		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$1,011,500	\$1,075,978	\$64,478	\$0	\$0	\$0
Municipal Income Tax	12,300,000	12,804,869	504,869	0	0	0
Other Local Taxes	0	0	0	50,000	45,577	(4,423)
Intergovernmental	2,839,839	3,071,797	231,958	11,267,000	4,258,355	(7,008,645)
Charges for Services	1,412,800	1,838,097	425,297	68,000	270,832	202,832
Fees, Licenses and Permits	665,500	650,135	(15,365)	15,000	12,347	(2,653)
Revolving Loan Payments	0	0	0	0	267,111	267,111
Fines and Forfeitures	1,095,000	1,169,721	74,721	233,000	126,073	(106,927)
Special Assessments	0	0	0	0	0	0
Investment Income	475,000	728,710	253,710	0	57,948	57,948
Miscellaneous	173,500	927,881	754,381	190,000	332,251	142,251
Total Revenues	19,973,139	22,267,188	2,294,049	11,823,000	5,370,494	(6,452,506)
Expenditures:						
Current:						
Security of Persons and Property	11,311,003	11,051,015	259,988	4,810,754	4,585,677	225,077
Leisure Time Activities	833,136	785,039	48,097	73,985	66,007	7,978
Community Environment	663,678	638,215	25,463	3,923,068	2,031,282	1,891,786
Transportation	1,514,795	1,452,226	62,569	3,495,390	3,309,792	185,598
General Government	6,246,389	5,841,706	404,683	65,000	57,967	7,033
Capital Outlay	1,251,824	942,296	309,528	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	21,820,825	20,710,497	1,110,328	12,368,197	10,050,725	2,317,472
Excess of Revenues Over (Under) Expenditures	(1,847,686)	1,556,691	3,404,377	(545,197)	(4,680,231)	(4,135,034)
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	0	0	0
Proceeds of Notes	1,200,000	0	(1,200,000)	0	0	0
Sale of Fixed Assets	5,000	15,472	10,472	0	0	0
Advances - In	0	0	0	0	550	550
Advances - Out	0	(550)	(550)	0	0	0
Operating Transfers - In	0	0	0	200,000	170,000	(30,000)
Operating Transfers - Out	(1,019,596)	(830,728)	188,868	0	0	0
Total Other Financing Sources (Uses)	185,404	(815,806)	(1,001,210)	200,000	170,550	(29,450)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,662,282)	740,885	2,403,167	(345,197)	(4,509,681)	(4,164,484)
Fund Balances at Beginning of Year	1,026,370	1,026,370	0	709,324	709,324	0
Prior Year Encumbrances Carried Over	216,414	216,414	0	431,223	431,223	0
Fund Balances (Deficit) at End of Year	(\$419,498)	\$1,983,669	\$2,403,167	\$795,350	(\$3,369,134)	(\$4,164,484)

(continued)

City of Lima, Ohio
Combined Statement of Revenues, Expenditures, and Changes in
Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
All Governmental Fund Types and Expendable Trust Fund
For The Year Ended December 31, 1998
(continued)

	Debt Service			Capital Projects		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$0	\$0	\$0	\$0	\$0	\$0
Municipal Income Tax	0	0	0	0	0	0
Other Local Taxes	0	0	0	0	0	0
Intergovernmental	0	0	0	687,348	626,546	(60,802)
Charges for Services	0	0	0	0	0	0
Fees, Licenses and Permits	0	0	0	0	0	0
Revolving Loan Payments	0	0	0	0	0	0
Fines and Forfeitures	0	0	0	255,000	310,225	55,225
Special Assessments	628,836	273,333	(355,503)	350,000	18,153	(331,847)
Interest	0	0	0	0	0	0
Miscellaneous	0	0	0	0	0	0
Total Revenues	628,836	273,333	(355,503)	1,292,348	954,924	(337,424)
Expenditures:						
Current:						
Security of Persons and Property	0	0	0	0	0	0
Leisure Time Activities	0	0	0	0	0	0
Community Environment	0	0	0	0	0	0
Transportation	0	0	0	0	0	0
General Government	0	0	0	0	0	0
Capital Outlay	0	0	0	1,555,816	1,001,605	554,211
Debt Service:						
Principal Retirement	1,504,757	1,152,290	352,467	0	0	0
Interest and Fiscal Charges	290,246	290,246	0	0	0	0
Total Expenditures	1,795,003	1,442,536	352,467	1,555,816	1,001,605	554,211
Excess of Revenues Over (Under) Expenditures	(1,166,167)	(1,169,203)	(3,036)	(263,468)	(46,681)	216,787
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	0	128,000	128,000
Proceeds of Notes	0	0	0	0	0	0
Sale of Fixed Assets	0	0	0	0	0	0
Advances - In	0	0	0	0	0	0
Advances - Out	0	0	0	0	0	0
Operating Transfers - In	1,219,167	1,165,299	(53,868)	0	0	0
Operating Transfers - Out	0	0	0	0	(177,861)	(177,861)
Total Other Financing Sources (Uses)	1,219,167	1,165,299	(53,868)	0	(49,861)	(49,861)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	53,000	(3,904)	(56,904)	(263,468)	(96,542)	166,926
Fund Balances at Beginning of Year	38,070	38,070	0	486,963	486,963	0
Prior Year Encumbrances Carried Over	0	0	0	43,468	43,468	0
Fund Balances (Deficit) at End of Year	\$91,070	\$34,166	(\$56,904)	\$266,963	\$433,889	\$166,926

See Accompanying Notes to the General Purpose Financial Statements

Expendable Trust			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$0	\$0	\$0	\$1,011,500	\$1,075,978	\$64,478
0	0	0	12,300,000	12,804,869	504,869
0	0	0	50,000	45,577	(4,423)
0	0	0	14,794,187	7,956,698	(6,837,489)
0	0	0	1,480,800	2,108,929	628,129
0	0	0	680,500	662,482	(18,018)
0	0	0	0	267,111	267,111
0	0	0	1,583,000	1,606,019	23,019
0	0	0	978,836	291,486	(687,350)
0	0	0	475,000	786,658	311,658
10,000	92,268	82,268	373,500	1,352,400	978,900
10,000	92,268	82,268	33,727,323	28,958,207	(4,769,116)
0	0	0	16,121,757	15,636,692	485,065
0	0	0	907,121	851,046	56,075
0	0	0	4,586,746	2,669,497	1,917,249
0	0	0	5,010,185	4,762,018	248,167
15,000	3,720	11,280	6,326,389	5,903,393	422,996
0	0	0	2,807,640	1,943,901	863,739
0	0	0	1,504,757	1,152,290	352,467
0	0	0	290,246	290,246	0
15,000	3,720	11,280	37,554,841	33,209,083	4,345,758
(5,000)	88,548	93,548	(3,827,518)	(4,250,876)	(423,358)
0	0	0	0	128,000	128,000
0	0	0	1,200,000	0	(1,200,000)
0	0	0	5,000	15,472	10,472
0	0	0	0	550	550
0	0	0	0	(550)	(550)
0	0	0	1,419,167	1,335,299	(83,868)
0	0	0	(1,019,596)	(1,008,589)	11,007
0	0	0	1,604,571	470,182	(1,134,389)
(5,000)	88,548	93,548	(2,222,947)	(3,780,694)	(1,557,747)
28,929	28,929	0	2,289,656	2,289,656	0
0	0	0	691,105	691,105	0
\$23,929	\$117,477	\$93,548	\$757,814	(\$799,933)	(\$1,557,747)

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City of Lima, Ohio
 Combined Statement of Revenues, Expenses and Changes in Fund Equity
 All Proprietary Fund Types
 For the Year Ended December 31, 1998

	Enterprise	Internal Service	Totals (Memorandum Only)
<u>Operating Revenues:</u>			
Charges for Services	\$17,616,107	\$2,539,883	\$20,155,990
Recycled Sales	84,272	0	84,272
Other Operating Revenues	308,265	17,532	325,797
Total Operating Revenues	<u>18,008,644</u>	<u>2,557,415</u>	<u>20,566,059</u>
<u>Operating Expenses:</u>			
Personal Services	4,000,669	0	4,000,669
Fringe Benefits	1,514,143	0	1,514,143
Materials and Supplies	1,109,600	0	1,109,600
Contractual Services	0	149,173	149,173
Claims Expense	0	2,485,927	2,485,927
Other Services and Charges	4,406,041	0	4,406,041
Depreciation	1,826,017	0	1,826,017
Total Operating Expenses	<u>12,856,470</u>	<u>2,635,100</u>	<u>15,491,570</u>
Operating Income (Loss)	<u>5,152,174</u>	<u>(77,685)</u>	<u>5,074,489</u>
<u>Non-Operating Revenues (Expenses):</u>			
Intergovernmental Revenue	75,000	0	75,000
Loss on Disposal of Fixed Assets	(928)	0	(928)
Investment Income	568,258	0	568,258
Interest and Fiscal Charges	(985,275)	0	(985,275)
Total Non-Operating Revenues (Expenses)	<u>(342,945)</u>	<u>0</u>	<u>(342,945)</u>
Net Income (Loss)	4,809,229	(77,685)	4,731,544
Depreciation on Fixed Assets Acquired by Contributed Capital	245,246	0	245,246
Retained Earnings (Deficit) at Beginning of Year (Restated Note 3)	11,535,058	(163,057)	11,372,001
Residual Equity Transfers - Out	(13,521)	0	(13,521)
Retained Earnings (Deficit) at End of Year	<u>16,576,012</u>	<u>(240,742)</u>	<u>16,335,270</u>
Contributed Capital at Beginning of Year	11,473,397	0	11,473,397
Contributed from Tap-in Fees	126,135	0	126,135
Depreciation on Fixed Assets Acquired by Contributed Capital	(245,246)	0	(245,246)
Contributed Capital at End of Year	<u>11,354,286</u>	<u>0</u>	<u>11,354,286</u>
Total Fund Equity (Deficit) at End of Year	<u>\$27,930,298</u>	<u>(\$240,742)</u>	<u>\$27,689,556</u>

See Accompanying Notes to the General Purpose Financial Statements

City of Lima, Ohio
 Combined Statement of Revenues, Expenses, and Changes in
 Fund Balance - Budget (Non-GAAP Budgetary Basis) and Actual
 All Proprietary Fund Types
 For The Year Ended December 31, 1998

	Enterprise Funds		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Charges for Services	\$18,274,880	\$18,438,560	\$163,680
Recyclable Sales	0	84,272	84,272
Proceeds of Notes	5,670,000	0	(5,670,000)
Interest	0	46,025	46,025
Grants	0	75,000	75,000
Miscellaneous	0	400,855	400,855
Total Revenues	23,944,880	19,044,712	(4,900,168)
Expenses:			
Personal Services	4,170,525	3,984,121	186,404
Fringe Benefits	1,389,296	1,352,036	37,260
Materials and Supplies	1,109,914	1,020,949	88,965
Contractual Services	0	0	0
Claims Expense	0	0	0
Other Services and Charges	7,199,442	5,702,090	1,497,352
Capital Outlay	14,873,657	3,773,149	11,100,508
Refund of Deposits	505,197	429,139	76,058
Debt Service:			
Payments to Trustees	1,386,613	1,065,595	321,018
Total Expenses	30,634,644	17,327,079	13,307,565
Excess of Revenues Over (Under) Expenses	(6,689,764)	1,717,633	8,407,397
Advances - In	0	80,000	80,000
Advances - Out	(80,000)	(80,000)	0
Operating Transfers - Out	(326,710)	(326,710)	0
Excess of Revenues Over (Under) Expenses and Operating Transfers	(7,096,474)	1,390,923	8,487,397
Fund Balances at Beginning of Year	6,176,481	6,176,481	0
Prior Year Encumbrances Carried Over	2,130,831	2,130,831	0
Fund Balances at End of Year	\$1,210,838	\$9,698,235	\$8,487,397

See Accompanying Notes to the General Purpose Financial Statements

Internal Service Fund			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$2,500,000	2,499,883	(\$117)	\$20,774,880	\$20,938,443	\$163,563
0	0	0	0	84,272	84,272
0	0	0	5,670,000	0	(5,670,000)
0	0	0	0	46,025	46,025
0	0	0	0	75,000	75,000
0	21,648	21,648	0	422,503	422,503
2,500,000	2,521,531	21,531	26,444,880	21,566,243	(4,878,637)
0	0	0	4,170,525	3,984,121	186,404
0	0	0	1,389,296	1,352,036	37,260
0	0	0	1,109,914	1,020,949	88,965
149,181	149,181	0	149,181	149,181	0
2,675,819	2,530,846	144,973	2,675,819	2,530,846	144,973
0	0	0	7,199,442	5,702,090	1,497,352
0	0	0	14,873,657	3,773,149	11,100,508
0	0	0	505,197	429,139	76,058
0	0	0	1,386,613	1,065,595	321,018
2,825,000	2,680,027	144,973	33,459,644	20,007,106	13,452,538
(325,000)	(158,496)	166,504	(7,014,764)	1,559,137	8,573,901
0	0	0	0	80,000	80,000
0	0	0	(80,000)	(80,000)	0
0	0	0	(326,710)	(326,710)	0
(325,000)	(158,496)	166,504	(7,421,474)	1,232,427	8,653,901
339,856	339,856	0	6,516,337	6,516,337	0
0	0	0	2,130,831	2,130,831	0
\$14,856	\$181,360	\$166,504	\$1,225,694	\$9,879,595	\$8,653,901

City of Lima, Ohio
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 For The Year Ended December 31, 1998

	Enterprise	Internal Service	Totals
<u>Increases and (Decreases) in Cash and Cash Equivalents:</u>			
<u>Cash Flows From Operating Activities:</u>			
Cash Received from Customers	\$18,237,425	\$0	\$18,237,425
Cash Received from Quasi-External Operating Transactions with Other Funds	0	2,539,883	2,539,883
Cash Payments for Personal Services	(3,984,121)	0	(3,984,121)
Cash Payments for Fringe Benefits	(1,352,036)	0	(1,352,036)
Cash Payments for Materials and Supplies	(865,827)	0	(865,827)
Cash Payments for Contractual Services	(3,840,416)	(149,173)	(3,989,589)
Cash Payments for Claims	0	(2,530,854)	(2,530,854)
Cash Payments for Other Services and Charges	(653,248)	0	(653,248)
Other Operating Receipts	467,537	17,532	485,069
Cash Payments to Other Governments	(305,886)	0	(305,886)
Cash Payments for Refunds	(13,172)	0	(13,172)
Utility Deposits Received	92,590	0	92,590
Utility Deposits Refunded	(95,115)	0	(95,115)
Net Cash Provided By (Used for) Operating Activities	7,687,731	(122,612)	7,565,119
<u>Cash Flows from Non-Capital Financing Activities:</u>			
Cash Received from Intergovernmental Revenue	75,000	0	75,000
Cash Received from Interfund Advances	80,000	0	80,000
Cash paid for Interfund Advances	(80,000)	0	(80,000)
Net Cash Flows Provided by (Used for) Non-Capital Financing Activities	75,000	0	75,000
<u>Cash Flows From Capital And Related Financing Activities:</u>			
Acquisition and Construction of Capital Assets	(2,253,224)	0	(2,253,224)
Cash Received from Tap-In Fees	126,135	0	126,135
Principal Paid on Revenue Bonds	(510,000)	0	(510,000)
Interest Paid on Revenue Bonds	(870,548)	0	(870,548)
Principal Paid on ODWA Debt	(220,564)	0	(220,564)
Interest Paid on ODWA Debt	(106,146)	0	(106,146)
Principal Paid on Capital Leases	(402)	0	(402)
Interest Paid on Capital Leases	(474)	0	(474)
Net Cash Flows Used for Capital and Related Financing Activities	(3,835,223)	0	(3,835,223)
<u>Cash Flows From Investing Activities:</u>			
Purchase of Investments	(94,055)	0	(94,055)
Change in Fair Value of Investments	444,070	0	444,070
Cash received from Interest	123,816	0	123,816
Net Cash Provided By Investing Activities	473,831	0	473,831
Net Increase (Decrease) In Cash And Cash Equivalents	4,401,339	(122,612)	4,278,727
Cash And Cash Equivalents At Beginning of Year	11,161,495	351,082	11,512,577
Cash And Cash Equivalents At End of Year	\$15,562,834	\$228,470	\$15,791,304

(continued)

City of Lima, Ohio
 Combined Statement of Cash Flows
 All Proprietary Fund Types
 For The Year Ended December 31, 1998
 (continued)

	Enterprise	Internal Service	Totals
<u>Reconciliation of Operating Income To</u>			
<u>Net Cash Provided By (Used for) Operating Activities:</u>			
Operating Income (Loss)	\$5,152,174	(\$77,685)	\$5,074,489
<u>Adjustments To Reconcile Operating Income</u>			
<u>To Net Cash Provided by (Used for) Operating Activities:</u>			
Depreciation	1,826,017	0	1,826,017
<u>Changes in Assets and Liabilities:</u>			
Decrease in Accounts Receivable	262,132	(107,000)	155,132
Increase in Intergovernmental Receivables	(14,000)	0	(14,000)
Increase in Material and Supplies Inventory	(3,063)	0	(3,063)
Increase in Prepaid Items	(4,570)	0	(4,570)
Increase in Accounts Payable	292,975	0	292,975
Increase in Accrued Wages	16,548	0	16,548
Increase in Compensated Absences	80,859	0	80,859
Increase in Intergovernmental Payable	81,184	0	81,184
Increase in Claims Payable	0	62,073	62,073
Decrease in Refundable Deposits	(2,525)	0	(2,525)
Net Cash Provided By (Used for) Operating Activities	<u>\$7,687,731</u>	<u>(\$122,612)</u>	<u>\$7,565,119</u>

Non-Cash Capital Transactions:

The water and sewer enterprise funds transferred fixed assets with a net book value of \$1,810 and \$11,711, respectively, to the general fixed assets account group.

See Accompanying Notes to the General Purpose Financial Statements

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 1 - REPORTING ENTITY

The City of Lima (the "City") is a home rule municipal corporation organized 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 issuance of debt, or the levying of taxes. There are no component units included in the reporting entity of the City.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed in the preparation of these financial statements are summarized below. These policies conform to generally accepted accounting principles for local governmental units as prescribed in the statements issued by the Governmental Accounting Standards Board and other recognized authoritative sources. The City also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, to the proprietary funds provided they do not conflict with or contradict GASB pronouncements. The more significant of the City's accounting policies are described below.

A. Basis of Presentation - Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain City functions or activities.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net available expendable financial resources.

For financial statement presentation purposes, the various funds of the City are grouped into the following generic fund types under the broad fund categories governmental, proprietary, and fiduciary.

Governmental Fund Types:

Governmental funds are those through which most governmental functions typically are financed. The acquisition, use, and balances of the City's expendable financial resources and the related current liabilities, except those accounted for in the proprietary funds, are accounted for through governmental funds. The measurement focus is upon determination of financial position and changes in financial position. The following are the City's governmental fund types:

General Fund. The general fund is the general operating fund of the City. This fund is used to account for all financial resources of the City 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 an ordinance of the City and/or the general laws of Ohio.

Special Revenue Funds. The special revenue funds are used to account for the proceeds of specific revenue sources, other than for major capital projects, that are legally restricted to expenditure for specified purposes.

Debt Service Funds. The debt service funds are used to account for the accumulation of financial resources for, and the payment of, general long-term debt principal, interest, and related costs and special assessment long-term debt principal, interest, and related costs.

Capital Projects Funds. The capital projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

Proprietary Fund Types:

The proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position, and cash flows. The following proprietary fund types are utilized by the City:

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

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Internal Service Fund. The internal service fund is 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 Fund Types:

These funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds. The City's agency funds are purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

Account Groups:

To make a clear distinction between fixed assets related to specific funds and those of general government, and between long-term liabilities related to specific funds and those of a general nature, the following account groups are used:

General Fixed Assets Account Group. The general fixed assets account group is used to account for all fixed assets of the City, other than those accounted for in the proprietary funds. These assets do not represent financial resources available for expenditure.

General Long-Term Obligations Account Group. The general long-term obligations account group is used to account for all unmatured long-term obligations of the City, except that which are accounted for in the proprietary funds.

B. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statement present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

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

The modified accrual basis of accounting is used for reporting purposes by the governmental fund types, expendable trust fund, and agency funds. Under this basis, revenues are recognized in the accounting period when they become both measurable and available. Measurable means the amount of the transaction can be determined. Available means collectible within the current year or soon enough thereafter to be used to pay liabilities of the current year end, which the City considers thirty-one days after year end.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: municipal income taxes, shared revenues, reimbursements due from state or federally funded projects for which corresponding expenditures have been made, and investment earnings. Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers, and miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

The City reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Special assessments are recorded as deferred revenue because they do not meet the availability criteria. Property taxes measurable as of December 31, 1998, and delinquent property taxes, whose availability is indeterminable and which are not intended to finance 1999 operations, have also been recorded as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. Principal and interest on general long-term and special assessment long-term obligations are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is used for reporting purposes by the proprietary funds. Revenues are recognized in the accounting period in which they are earned, and expenses are recognized at the time they are incurred. Unbilled service charges receivable are recognized as revenue at year end.

C. Budgetary Data

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations ordinance, all of which are prepared on the budgetary basis of accounting. All funds, other than agency funds, are legally required to be budgeted and appropriated.

Budgetary information of the Sinking Fund Board of Trustees and the trustee accounts for the revenue bonds is not presented because they are not included in the entity for which the "appropriated budget" is adopted and separate budgetary records are not maintained.

Tax Budget:

Prior to July 15, the City Auditor submits to the City Council a proposed operating budget for the year commencing the following January 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates.

By no later than July 20, the Council-adopted budget is filed with the Allen County Budget Commission for rate determination.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Mayor's Estimate

On or before December 15, the Mayor prepares an estimate of the cost of conducting the affairs of the City for the following year to be used for the preparation of the annual appropriations. The estimate includes an itemized estimate of each department's cost, comparisons of the estimate with the prior two year's actual cost for each department, explanations for increases or decreases, and an itemization of anticipated revenue from all sources.

Estimated Resources:

Prior to October 1, the City accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the commission's certificate of estimated resources, which states the estimated beginning of year fund balance and the projected revenue of each fund. Prior to December 31, the City must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriations measure. On or about January 1, the certificate of estimated resources is amended to include the actual unencumbered fund balances from the preceding year. The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the City Auditor and the County Budget Commission finds the revised estimates to be reasonable. The amounts reported in the financial statements reflect the amounts in the final amended certificate issued during the year 1998.

Appropriations:

By March 31, the annual appropriation resolution must be legally enacted by the City at the fund, department, and function level of expenditures, which are the legal levels of budgetary control. Prior to the passage of the annual appropriation measure, the City may pass a temporary appropriations measure to control the level of expenditures for all funds. The appropriation ordinance, by fund, must be within the estimated resources as certified by the County Budget Commission. The City may pass supplemental fund appropriations so long as *the total appropriations by fund do not exceed the amounts set forth in the most recent amended certificate of estimated resources*. During the year, several supplemental appropriations were legally enacted. The budget figures which appear in the statements of budgetary comparisons represent the final appropriation amounts, including all supplemental appropriations.

Budgeted Level of Expenditure:

Administrative control is maintained through the establishment of detailed line-item budgets. Appropriated funds may not be expended for purposes other than those designated in the appropriation ordinance without authority from Council. Expenditures plus encumbrances may not legally exceed appropriations at the level of appropriation adopted by Council. For all funds, appropriations are made by department and major object levels, which include salaries, fringe benefits, other expenditures/expenses, capital outlay, and transfers-out.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are encumbered and recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at year end are reported as reservations of fund balances for subsequent year expenditures for governmental funds and disclosed in the notes to the financial statements for proprietary funds.

Lapsing of Appropriations:

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

D. 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."

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. STAR Ohio 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. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's shared price, which is the price the investment could be sold for at December 31, 1998.

Following local ordinance, 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 1998 amounted to \$942,273, which includes \$802,000 assigned from other City funds.

For 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.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

E. Materials and Supplies Inventory

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. The costs of inventory items are recorded as expenditures in the governmental fund types when purchased and as expenses in the proprietary fund type when used. The reserve for inventory within the governmental funds indicates that a portion of the fund balance is not available for future expenditures. At December 31, 1998, the street repair and recreation activity special revenue funds and the water and sewer enterprise funds maintained inventories.

F. Notes Receivable

Notes receivable represent 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.

G. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 1998, are recorded as prepaid items by 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.

H. Unamortized Bond Issue Costs

In governmental fund types, 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.

I. 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.

J. Interfund Assets/Liabilities

Receivables and payables arising between funds for goods or services rendered are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans or the short-term portion of advances are classified as "interfund receivables/payables."

Long-term interfund loans are reported as advances to/from other funds. Advances to other funds are equally offset by a fund balance reserve account in governmental funds which indicates that they do not constitute "available expendable resources" since they are not a component of net current assets.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

K. Fixed Assets and Depreciation

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction costs are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. Fixed assets utilized in the proprietary funds are capitalized in the respective fund. All fixed 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 dates received.

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 capitalized. Interest incurred during the construction of general fixed assets is also not capitalized.

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

Fixed assets associated with proprietary fund activities are accounted for in those funds. Depreciation is calculated using the straight line method over the assets' estimated useful lives. Depreciation expense on assets constructed or acquired through capital grants is closed to retained earnings. The assets of the enterprise funds are depreciated on the following basis:

<u>Description</u>	<u>Estimated Lives</u>
Buildings	45 - 50 years
Equipment	5 - 20 years
Vehicles	6 - 10 years
Water and Sewer Lines	30 - 99 years

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. For 1998, there was no interest capitalized.

L. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive the compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. Sick leave benefits are accrued as a liability using the termination method. The liability is based on an estimate of the amount of accumulated sick leave that will probably be paid as a termination benefit.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using available expendable resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The remainder is reported in the general long-term obligations account group. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

M. Accrued Liabilities and Other Long-Term Obligations

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether or not they will be liquidated with current resources. However, compensated absences, and contractually required pension contributions are reported as a liability in the general long-term obligation account group to the extent that they will not be paid with current available expendable financial resources. Payments made more than 31 days after year end are considered not to have used current available expendable financial resources. Bonds, capital leases and long-term loans are recognized as a liability of the general long-term obligations account group until due.

Long-term debt and other obligations financed by enterprise funds are reported as liabilities in the appropriate enterprise fund.

N. Contributed Capital

Contributed capital represents resources from other funds, other governments, and private sources provided to proprietary funds and is not subject to repayment. These assets are recorded at their fair market value on the date contributed. Depreciation on those assets acquired or constructed with capital grants is expensed and closed to contributed capital at year end.

O. Reserves of Fund Equity

Reserves of fund equity indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Governmental fund balances are reserved for encumbrances, inventory, and notes receivable. In proprietary funds, reservations of retained earnings indicate the accumulation of earnings to be used for plant improvement and replacement and operations in accordance with revenue bond covenants.

P. Intergovernmental Revenues

For governmental funds, intergovernmental revenues, such as grants awarded on a non-reimbursement basis, shared revenues, and entitlements are recorded as receivables and revenues when measurable and available. Reimbursement type grants are recorded as receivables and revenues when the related expenditures are incurred. Grants, entitlements, or shared revenues received for proprietary fund operating purposes are recognized as non-operating revenues in the accounting period in which they are earned and become measurable. Such resources restricted for the construction of capital assets are recorded as contributed capital.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Q. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, most of which are in the form of transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Operating subsidies are also recorded as operating transfers.

Nonrecurring and nonroutine transfers of equity between funds, capital contributions to the enterprise funds, the subsequent return of all or part of such contributions, the transfer of residual balances of discontinued funds or projects to the general fund, capital projects fund, or debt service funds (when financed with debt proceeds), and the transfer of fixed assets from the proprietary funds to the general fixed assets account group are classified as residual equity transfers.

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

R. Use of Estimates

The preparation of the 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 could differ from those estimates.

S. Total Columns on Combined Financial Statements

Total columns in the general purpose financial statements are captioned "Totals - (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 3 - CHANGE IN ACCOUNTING PRINCIPLES

For 1998, the City has implemented GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." This statement established accounting and reporting guidelines for government investments and investment pools. Certain investments which were reported at cost in previous years are now reported at fair value.

The implementation of GASB Statement No. 31 had the following effect on the excess of revenue and other financing sources under expenditures and other financing uses and net income as previously reported for the year ended December 31, 1997.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

	<u>General Fund</u>	<u>Enterprise Funds</u>
Excess/Net Income as previously reported	(\$710,458)	\$3,331,938
Restatement for GASB Statement No. 31	<u>57,816</u>	<u>160,583</u>
Restated amount for the year ended December 31, 1997	<u>(\$652,642)</u>	<u>\$3,492,521</u>

The implementation of GASB Statement No. 31 had the following effect on fund balance/retained earnings as it was previously reported as of December 31, 1997.

	<u>General Fund</u>	<u>Enterprise Funds</u>
Fund Balance/Retained Earnings as previously reported	\$1,574,794	\$11,131,708
Restatement for GASB Statement No. 31	<u>143,616</u>	<u>403,350</u>
Restated Fund Balance/Retained Earnings December 31, 1997	<u>\$1,718,410</u>	<u>\$11,535,058</u>

The City has also implemented GASB Statement No. 32. "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" for its deferred compensation through the Ohio Public Employees Deferred Compensation Plan. In September 1998, the Ohio Public Employees Deferred Compensation Plan established a trust; therefore, these monies were removed from the City's Deferred Compensation agency fund.

NOTE 4 - COMPLIANCE AND ACCOUNTABILITY

A. Compliance

The following funds had expenditures (including encumbrances) in excess of appropriations, at the legal level of appropriations for the year ended December 31, 1998:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds:			
Street Repair			
Transportation			
Personal Services	\$794,614	\$797,875	(\$3,261)
Debt Service Funds:			
General Bond Retirement			
Debt Service			
Interest and Fiscal Charges	0	206,874	(206,874)
Special Assessment Bond			
Debt Service			
Principal Retirement	0	371,728	(371,728)
Interest and Fiscal Charges	0	83,372	(83,372)
Internal Service Fund:			
Health Benefits			
Contractual Services			
Self Insurance	0	149,181	(149,181)

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 1998.

Fund Type/Fund	Estimated Resources	Appropriations	Excess
General Fund	\$22,420,923	\$22,840,421	\$419,498
Special Revenue Fund			
CHIP Housing Improvement	741,686	750,000	8,314
Federal Block Grant	2,499,237	3,123,068	623,831

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 fund balance in any fund indicated that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit fund balance. The Street Repair special revenue fund and Special Assessments capital projects fund had a deficit cash balance at year end.

B. Accountability

At December 31, 1998, the Special Assessments capital projects fund had a deficit of \$5,055 which was caused by the issuance of notes during the year. Once the special assessments are collected, the deficit will be eliminated. The Street Repair special revenue fund had a deficit fund balance of \$340,946 and the Health Benefits internal service fund had a deficit retained earnings of \$240,742 caused by the accumulation of operating losses. The general fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when deficits occur.

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

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

The Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types and Expendable Trust Fund and the Combined Statement of Revenues, Expenses, and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual - All Proprietary Fund Types 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 that:

- (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;

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

- (4) Outstanding year end encumbrances are treated as expenditures/expenses (budget basis) rather than as a reservation of fund balance for governmental fund types (GAAP basis). Material encumbrances are disclosed in the notes to the general purpose financial statements for proprietary fund types (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 proprietary funds, the acquisition and construction of capital assets are reported on the operating statement (budget basis) rather than as balance sheet transactions (GAAP basis);

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

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

	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
GAAP Basis	\$1,326,442	(\$148,880)	\$15,236	\$82,888	\$71,141
Adjustments for:					
Revenue Accruals	(303,355)	(894,480)	(16,100)	(4,491)	15,600
Expenditure Accruals	601,482	555,841	(3,040)	(168,451)	1,807
Cash Adjustments	854	49	0	0	0
Outside Cash	65,330	0	0	0	0
Advances In	(550)	0	0	0	0
Advances Out	0	550	0	0	0
Changes in Prepays	(3,055)	0	0	0	0
Changes in Inventory	5,023	0	0	0	0
Encumbrances Outstanding at Year End (Budget Basis)	(301,652)	(4,031,733)	0	(6,488)	0
Revolving Loans:					
Issued	0	(301,319)	0	0	0
Payments	0	310,291	0	0	0
Transfer of Debt Activity	(500,000)	0	0	0	0
Change of Fair Value of Investments	(149,634)	0	0	0	0
Budget Basis	<u>\$740,885</u>	<u>(\$4,509,681)</u>	<u>(\$3,904)</u>	<u>(\$96,542)</u>	<u>\$88,548</u>

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Net Income (Loss)/Excess of Revenues Over (Under)
Expenses and Operating Transfers
All Proprietary Fund Types

	Enterprise	Internal Service
GAAP Basis	\$4,809,229	(\$77,685)
Adjustments for:		
Revenue Accruals	377,284	(142,884)
Expense Accruals	459,302	62,073
Cash Adjustments	(128)	0
Contributed Capital	126,135	0
Changes in Prepaids	(4,570)	0
Acquisition of Fixed Assets	(2,372,171)	0
Changes in Inventory	(3,459)	0
Loss on Disposal of Fixed Assets	928	0
Depreciation Expense	1,826,017	0
OWDA Debt Payments	(220,564)	0
Net Transaction of Nonbudget Cash Activity	191,136	0
Principal Payment on Capital Lease	(402)	0
Issuance Cost	10,190	0
Bond Principal Retirement	(510,000)	0
Utility Deposits	(2,525)	0
Change of Fair Value of Investments	(398,045)	0
Encumbrances Outstanding at Year End (Budget Basis)	(2,897,434)	0
Budget Basis	\$1,390,923	(\$158,496)

NOTE 6 - 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.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

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.

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 pass book accounts.

Interim monies may be deposited or invested in the following:

1. United States Treasury notes, bills, bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
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 percent and be marked to market daily, and that the term of the agreement must not exceed thirty 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 Treasurer's investment pool (STAR Ohio).

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; and,
3. Obligations of the City.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

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 qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Prior to September 1996, the effective date of changes in State statutes, the City invested in collateralized mortgage obligations to maximize yields. These securities are based on cash flows from interest payments on the underlying mortgages; therefore, the securities are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

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 \$4,560,698 and the bank balance was \$5,037,028. Of the bank balance, \$1,001,008 was covered by federal depository insurance, by collateral held by the City or by collateral held by the City's agent in the name of the City. The remaining balance was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and are in the City's name and all State statutory requirements for the investment of money had been followed, noncompliance with federal requirements could potentially subject the City to a successful claim by the FDIC.

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. Mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

Securities	Category			Fair Value
	1	2	3	
Manuscript Bonds	\$275,736	\$0	\$0	\$275,736
Repurchase Agreements	0	0	2,975,660	2,975,660
Federal Home Loan Mortgage Corporation, Mortgage Participation Certificates	0	2,859,008	0	2,859,008
Federal National Mortgage Association, REMIC	0	898,750	0	898,750

(continued)

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Securities	Category			Fair Value
	1	2	3	
Federal Home Loan Bank, Medium Term Notes	\$0	\$995,910	\$0	\$995,910
U.S. Treasury Notes	0	0	1,008,751	1,008,751
	<u>\$275,736</u>	<u>\$4,753,668</u>	<u>\$3,984,411</u>	9,013,815
Monitor Treasury Market Fund II				2,339,101
STAR Ohio				2,868,316
Bank One Money Market Mutual Fund				1,730,544
Grand Total				<u>\$15,951,776</u>

The classification of cash and cash equivalents and investments on the combined balance sheet are based on criteria set forth in GASB Statement No. 9. Cash and cash equivalents are defined to include investments with original maturities of three months or less and funds included within the City's cash management pool. A reconciliation between the classifications of cash and investments on the combined financial statements and the classifications per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents\	
	Deposits	Investments
GASB Statement No. 9	\$20,236,738	\$275,736
Investments:		
Repurchase Agreements	(2,975,660)	2,975,660
STAR Ohio	(2,868,316)	2,868,316
Monitor Treasury Market Fund II	(2,339,101)	2,339,101
Federal Home Loan Mortgage Corporation, Mortgage Participation Certificates.	(2,859,008)	2,859,008
Federal National Mortgage Association, REMIC	(898,750)	898,750
Federal Home Loan Bank, Medium Term Notes	(995,910)	995,910
Bank One Money Market Mutual Fund	(1,730,544)	1,730,544
U.S. Treasury Notes	(1,008,751)	1,008,751
GASB Statement No. 3	<u>\$4,560,698</u>	<u>\$15,951,776</u>

NOTE 7 - 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 to the City at least quarterly. Corporations and other individual taxpayers are also required to pay their estimated 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, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 8 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Taxes collected on real property (other than public utility property) in one calendar year are levied in the preceding calendar year on assessed values as of January 1 of that preceding year, the lien date. Assessed values are established by the County Auditor at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1990. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31, with the remainder payable by June 20.

Taxes collected on tangible personal property (other than public utility property) in one calendar year are levied in the prior calendar year on assessed values listed on December 31 of the prior year, and at tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is currently assessed for ad valorem taxation purposes at 25 percent of its true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30; with the remainder payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the year preceding the tax collection year, the lien date. Certain public utility tangible personal property currently is assessed at 88 percent of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

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.

The full tax rate for all City operations for the year ended December 31, 1998, was \$3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 1998 property tax receipts were based are as follows:

<u>Category</u>	<u>Assessed Value</u>
Real Estate	
Residential/Agricultural	\$167,819,990
Commercial/Industrial	83,942,870
Tangible Personal	52,653,985
Public Utility Real	190,550
Public Utility Personal	32,760,110
Total	<u>\$337,367,505</u>

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 9 - RECEIVABLES

Receivables at December 31, 1998, consisted of taxes, utility accounts, intergovernmental receivables arising from grants, entitlements and shared revenues, special assessments, interest on investments, and notes. All receivables are considered to be fully collectible including utility services. A summary of utility accounts receivable is as follows:

Water	\$1,036,515
Sewer	1,111,082
Refuse	<u>503,659</u>
Total	<u>\$2,651,256</u>

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 loans are to be repaid over periods ranging from five to fifteen years. The notes are recorded net of an allowance for uncollectibles in the amount of \$815,644.

A summary of the principal items of intergovernmental receivables follows:

Fund Type/Fund/Source	Amounts
GENERAL FUND	
Estate Taxes	\$107,363
Local Government	151,985
Lima Board of Education	675
Allen County	9,589
Municipal Court	102,661
Miscellaneous Cross Charges	3,241
Water District Fees	<u>27,875</u>
Total General Fund	<u>403,389</u>
SPECIAL REVENUE FUNDS	
<i>Indigent Alcohol Treatment</i>	
Municipal Court	<u>1,035</u>
<i>Drug, Enforcement & Education</i>	
Municipal Court	174
Immobile Fees	<u>2,000</u>
Total Drug, Enforcement & Education	<u>2,174</u>
<i>Traffic Patrol Control</i>	
Municipal Court	6,015
Parking Garage Project	<u>465,762</u>
Total Traffic Patrol Control	<u>471,777</u>

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City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Fund Type/Fund/Source	Amounts
State Highway	
Allen County	\$1,282
Gasoline Excise Tax	3,023
Total State Highway	4,305
Street Repair	
Allen County	275,659
Gasoline Excise Tax	37,278
Total Street Repair	312,937
Law Enforcement Trustee	
Municipal Court	737
Community Police Fund	
Byrne Grant	\$9,471
Weed & Seed Grant	77,931
COPS	50,000
Small Community Grant	62,000
Family First Grant	2,500
Total Community Police Fund	201,902
Dare Program Fund	
Dare Grant	16,608
Special Gift	
Rail Commission	4,928
Total Special Revenue Funds	1,016,403
CAPITAL PROJECTS FUNDS	
Court Computers	
Municipal Court	18,578
Court Capital Improvement	
Municipal Court	7,620
Total Capital Projects Funds	26,198
ENTERPRISE FUND	
Refuse	
Miscellaneous Cross Charges	14,000
Total Enterprise Fund	14,000
Grand Total	\$1,459,990

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 10 - FIXED ASSETS

A. General Fixed Assets

The summary of changes in general fixed assets during 1998 is as follows:

	Balance 12/31/97	Additions	Deletions	Balance 12/31/98
Land	\$1,406,377	\$908,500	\$0	\$2,314,877
Buildings	5,346,220	66,000	0	5,412,220
Equipment	3,750,289	488,866	332,078	3,907,077
Vehicles	3,616,033	521,461	114,838	4,022,656
Construction in Progress	0	927,000	0	927,000
Total	\$14,118,919	\$2,911,827	\$446,916	\$16,583,830

Construction in progress consists of a parking garage. This project will be funded through future issuances of debt and future state and county assistance.

B. Fund Fixed Assets

All fund fixed assets relate to the water, sewer, and refuse enterprise funds. The balances as of December 31, 1998, for the enterprise funds were as follows:

	<u>Amounts</u>
Land	\$1,112,622
Building	25,841,491
Equipment	14,935,646
Vehicles	2,058,665
Water and Sewer Lines	23,146,914
Construction in Progress	1,411,972
Total Fund Fixed Assets	68,507,310
Less: Accumulated Depreciation	<u>(41,512,325)</u>
Total Fund Fixed Assets (net of accumulated depreciation)	<u>\$26,994,985</u>

Construction in progress consists mostly of water and sewer line projects that were not completed by year-end. These projects will be funded by future service charges and state assistance.

NOTE 11 - 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 actuarial estimates of 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 other than the police

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

department. The police department's deductibles are \$250 for single and \$500 for family. Under this program, the fund provides coverage for up to a maximum of \$75,000 for each individual. The City purchases stop-loss coverage for claims in excess of \$75,000 and up to a maximum of \$1,000,000. Settled claims have not exceeded 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 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 or unallocated claim adjustment expenses. Claims payable at December 31, 1998, are estimated by the third party administrator at \$576,212.

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Stop Loss	Claims Payments	End of Year Liability
1997	\$342,597	\$2,223,775	\$0	\$2,052,233	\$514,139
1998	514,139	2,485,927	107,000	2,530,854	576,212

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 1998 the City contracted with a third party for insurance as follows:

Company	Type of Coverage	Deductible
Author J. Gallagher and Co.	Buildings 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 an annual aggregate deductible of \$100,000 and a specific occurrence deductible of \$25,000.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

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.

NOTE 12 - EMPLOYEE BENEFITS

A. Compensated Absences

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 with the City is paid 25 percent of his accrued but unused sick leave, up to a maximum of thirty accrued sick days.

A portion of unpaid compensated absences at year end was reported in the governmental funds in the amount of \$1,464. The balance of the liability is reported in the general long-term obligations account group in the amount of \$2,021,366. An accrual of \$659,190 for compensated absences payable is reported within the enterprise funds.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (the "System"), a cost-sharing multiple employer public employee retirement system 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. The report may be obtained by writing to Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642.

Plan members are required to contribute 8.5 percent of their annual-covered salary to fund pension obligations and the City is required to contribute 13.55 percent; 9.35 percent was the portion used to fund pension obligations. Prior to January 1, 1998, the portion used to fund pension obligations was 8.44 percent. Contributions are authorized by State statute. The contribution rates are determined actuarially. The City's contributions to PERS for the years ended December 31, 1998, 1997, and 1996, were \$927,333, \$871,012, and \$819,555, respectively; 86 percent has been contributed for 1998 and 100 percent has been contributed for 1997 and 1996. The unpaid contribution for 1998, in the amount of \$125,344, is recorded as a liability within the respective funds and the general long-term obligations account group.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

B. Police and Firemen's Disability and Pension Fund

The City contributes to the Police and Firemen's Disability and Pension Fund of Ohio (the "Fund"), a cost-sharing multiple employer public employee retirement system administered by the Fund's Board of Trustees. The Fund provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to qualified participants and beneficiaries. Benefits are established by the Ohio State Legislature and by Chapter 742 of the Ohio Revised Code. The Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund. The report may be obtained by writing to the Police and Firemen's Disability and Pension Fund of Ohio, 140 East Town Street, Columbus, Ohio 43215.

Police and firefighters are required to contribute 10 percent of their annual covered salary to fund pension obligations and the City is required to contribute 19.5 percent for police (13 percent was the portion used to fund pension obligations) and 24 percent for firefighters (17.5 percent was the portion used to fund pension obligations). Contributions are authorized by State statute. The City's contributions to the Fund for the years ended December 31, 1998, 1997, and 1996, were \$997,715, \$1,060,555, and \$1,044,460, respectively; 70 percent has been contributed for 1998 and 100 percent has been contributed for 1997 and 1996. The unpaid contribution for 1998, in the amount of \$460,570, is recorded as a liability within the respective funds and the general long-term obligations account group.

NOTE 14 - POSTEMPLOYMENT BENEFITS

A. Public Employees Retirement System (PERS)

The Public Employees Retirement System of Ohio (PERS) provides postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPB) as described in GASB Statement No. 12, "Disclosure of Information on Postemployment Benefits Other Than Pension Benefits by State and Local Governmental Employers." 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 employers' contribution rate was 13.55 percent of covered payroll; 4.2 percent was the portion that was used to fund health care for 1998.

Benefits were funded on a pay-as-you-go-basis. OPB are financed through employer contributions and investment earnings. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions, are expected to be sufficient to sustain the program indefinitely.

During 1998, OPB expenditures made by PERS were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPB payments were \$9,447,325,318. At December 31, 1998, the total number of benefit recipients eligible for OPB through PERS was 115,579. The City's actual contributions for 1998 which were used to fund OPB were \$416,556.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

B. Police and Firemen's Disability Pension Fund

The Police and Firemen's Disability and Pension Fund (the "Fund") 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 eighteen whether or not the child is attending school or under the age of twenty-two if attending school full-time or a two-thirds basis.

The health care coverage provided by the retirement system is considered an Other Postemployment Benefit as described in GASB Statement No. 12. The Ohio Revised Code provides the authority allowing the Fund's Board of Trustees to provide health care coverage and states that health care cost paid from the Fund shall be included in the employer's contribution rate. Health care funding and accounting are on a pay-as-you-go basis. The total police employers' contribution rate is 19.5 percent of covered payroll and the total firefighter employers' contribution rate is 24 percent of covered payroll, of which 6.5 percent of covered payroll is applied to the postemployment health care program. In addition, since July 1, 1992, most retirants have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible to receive health care benefits as of December 31, 1996, was 17,493 for police and 14,120 for firefighters. The City's actual contributions for 1998 that were used to fund postemployment benefits were \$233,830 for police and \$196,878 for fire. The Fund's total health care expense for the year ending December 31, 1996, (the latest information available), was \$71,674,335.

NOTE 15 - SHORT-TERM OBLIGATIONS

Note debt activity for the year ended December 31, 1998, consisted of the following:

	Interest Rate %	Balance 12/31/97	Increase	Decrease	Balance 12/31/98
<u>Special Assessment Notes</u>					
<u>Capital Projects Funds</u>					
Capital Improvement Fund					
1996 Street Project	4.65	\$170,000	\$0	\$170,000	\$0
<u>General Obligation Notes</u>					
<u>General Fund</u>					
River Corridor Project	4.25	500,000	0	500,000	0
Total Notes Payable		<u>\$670,000</u>	<u>\$0</u>	<u>\$670,000</u>	<u>\$0</u>

By Ohio law, notes can be issued in anticipation of general obligation bond proceeds, or for up to 50 percent of anticipated revenue collections. The special assessment notes are backed by the full faith and credit of the City. In the event that an assessed property owner fails to make payments, the City would be required to pay the related debt.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 16 - LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 1998, were as follows:

	Interest Rate %	Balance 12/31/97	Increase	Decrease	Balance 12/31/98
GENERAL LONG-TERM OBLIGATIONS					
<u>Special Assessment Bonds:</u>					
1978 Cable Road Lift Station	13.500	\$10,000	\$0	\$2,000	\$8,000
1978A Kibby Corners and Trees	6.000	6,000	0	6,000	0
1980A Special Assessments	8.500	120,000	0	40,000	80,000
1983B South Main Street CBD	8.750	24,000	0	4,000	20,000
1987 Industry Avenue	7.250	198,000	0	18,000	180,000
1988 Gardendale Sewer Improvement	10.000	24,000	0	4,000	20,000
1992 West Elm and North Street	5.500	175,000	0	35,000	140,000
1993 Combined Sidewalk	5.000	10,792	0	10,792	0
1994 Jackson Street Improvements	5.500	49,000	0	7,000	42,000
1994 Combined Sidewalks	5.500	8,000	0	4,000	4,000
1995 Elm/Woodlawn/Pine Street	5.200	290,000	0	35,000	255,000
1996 Market/Collet/Elmwood	5.800	135,000	0	15,000	120,000
1995 Combined Sidewalks	6.000	40,000	0	10,000	30,000
1996 Combined Sidewalks	4.750	54,670	0	10,934	43,736
1997 Combined Sidewalks	4.750	0	128,000	0	128,000
Total Special Assessment Bonds		<u>1,144,462</u>	<u>128,000</u>	<u>201,726</u>	<u>1,070,736</u>
<u>Unvoted General Obligation Bonds</u>					
1988 Municipal Center	7.223	1,095,000	0	60,000	1,035,000
<u>Other Long-Term Obligations</u>					
Compensated Absences		1,913,792	107,574	0	2,021,366
Intergovernmental Payables		477,097	569,527	477,097	569,527
Police and Fire Pension		685,053	0	6,456	678,597
Judgment Payable		310,000	0	200,000	110,000
Loans Payable		330,814	0	113,520	217,294
Capital Leases		67,832	242,570	46,025	264,377
Total Other Long-Term Obligations		<u>3,784,588</u>	<u>919,671</u>	<u>843,098</u>	<u>3,861,161</u>
Total General Long-Term Obligations		<u>6,024,050</u>	<u>1,047,671</u>	<u>1,104,824</u>	<u>5,966,897</u>
ENTERPRISE FUND OBLIGATIONS					
<u>Revenue Bonds</u>					
1992 Water Revenue Refunding Bonds	Various	7,140,000	0	315,000	6,825,000
1992 Sewer Revenue Refunding Bonds	Various	7,260,000	0	195,000	7,065,000
Total Enterprise Revenue Bonds		<u>14,400,000</u>	<u>0</u>	<u>510,000</u>	<u>13,890,000</u>
<u>Other Long-Term Obligations</u>					
OWDA Loans	5.500	1,985,071	0	220,564	1,764,507
Capital Leases		1,643	0	402	1,241
Total Enterprise Other Long-Term		<u>1,986,714</u>	<u>0</u>	<u>220,966</u>	<u>1,765,748</u>
Total Enterprise Fund Obligations		<u>16,386,714</u>	<u>0</u>	<u>730,966</u>	<u>15,655,748</u>
Total - All Long-Term Obligations		<u>\$22,410,764</u>	<u>\$1,047,671</u>	<u>\$1,835,790</u>	<u>\$21,622,645</u>

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

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 General Long-Term Obligations Account Group will be retired through the Debt Service Fund.

Special Assessment Bonds - Special assessment bonds are payable from the proceeds of assessments levied against the specific property owners who primarily benefitted from the project. Special assessment monies will be received in 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.

Police and Fire Pension Liability - The City pays installments on the accrued liability incurred when the State of Ohio established the statewide pension system for police personnel in 1967. The liability is payable semiannually from the General Fund.

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.

Loans Payable - The loans payable represent amounts borrowed for the acquisition of computer equipment and 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 from which the employees' salaries are paid.

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. In conjunction with the issuance of the revenue refunding bonds, the City entered into a trust agreement with a commercial bank. This trust agreement, along with the bond indenture, requires that the City establish various accounts for the repayment of debt. The restricted assets in the water and sewer funds are held by the trustees in accordance with the trust agreements. Restricted assets relating to the water and sewer revenue bonds consisted of the following at December 31, 1998:

	Water	Sewer	Total
<u>Restricted assets held by Trustee for:</u>			
Revenue bond current debt service	\$25,146	\$15,567	\$40,713
Revenue bond future debt service	762,037	826,656	1,588,693

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

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 2005 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
2005	\$455,000	\$380,000	\$835,000
2006	485,000	415,000	900,000
2007	515,000	565,000	1,080,000
2008	550,000	715,000	1,265,000
2009	580,000	760,000	1,340,000
2010	620,000	805,000	1,425,000
2011	660,000	855,000	1,515,000

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 dates (dates inclusive)	Redemption Prices	
	Water	Sewer
December 1, 2002 through November 30, 2003	102%	102%
December 1, 2003 through November 30, 2004	101%	101%
December 1, 2004 and thereafter	100%	100%

Principal and interest requirements to retire general long-term debt obligations outstanding at December 31, 1998 are as follows:

	General Obligation	Special Assessments	Police and Fire Pension	Loans	Total
1999	\$140,516	\$275,961	\$40,629	\$57,265	\$514,371
2000	141,031	257,815	40,629	55,233	494,708
2001	141,131	204,833	40,629	53,087	439,680
2002	140,844	185,201	40,629	50,821	417,495
2003	139,944	133,235	40,629	48,427	362,235
2004-2008	700,731	253,420	203,143	7,829	1,165,123
2009-2013	139,588	0	203,143	0	342,731
2014-2035	0	0	893,828	0	893,828
	<u>\$1,543,785</u>	<u>\$1,310,465</u>	<u>\$1,503,259</u>	<u>\$272,662</u>	<u>\$4,630,171</u>

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 1998 from the enterprise funds are as follows:

	Revenue	OWDA	Total
	Bonds	Loans	
1999	\$1,390,558	\$314,579	\$1,705,137
2000	1,397,763	302,448	1,700,211
2001	1,412,043	290,317	1,702,360
2002	1,427,648	278,186	1,705,834
2003	1,434,848	266,055	1,700,903
2004-2008	7,701,633	725,378	8,427,011
2009-2013	6,846,025	0	6,846,025
	<u>\$21,610,518</u>	<u>\$2,176,963</u>	<u>\$23,787,481</u>

As of December 31, 1998, the City's overall legal debt margin was \$34,388,588.

NOTE 17 - INTERFUND TRANSACTIONS

As of December 31, 1998, interfund receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivable/Payable		Advances to/From Other Funds	
	Receivable	Payable	Advances to	Advances From
General Fund	\$487,206	\$1,407	\$0	\$0
Special Revenue Funds:				
Street Repair	0	482,151	0	0
Building Fees	1,407	0	0	0
Debt Service				
General Obligation Bond	0	64,837	0	0
Special Assessment Bond	64,837	0	0	0
Capital Projects Fund:				
Special Assessment	0	5,055	0	0
Enterprise Funds:				
Water	0	0	372,240	0
Sewer	0	0	0	372,240
Total	<u>\$553,450</u>	<u>\$553,450</u>	<u>\$372,240</u>	<u>\$372,240</u>

During 1998, the City transferred fixed assets from the water and sewer enterprise funds with a net book value of \$1,810 and \$11,711 to the general fixed assets account group; therefore, residual equity transfers do not balance.

NOTE 18 - CAPITAL LEASES - LESSEE DISCLOSURE

The City has entered into some capitalized leases for equipment and automobiles. These leases meet the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, "Accounting for Leases,"

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments are reflected as program expenditures in combined financial statements for the governmental funds and as a reduction of the liability in the enterprise funds. General fixed assets consisting of equipment and automobiles have been capitalized in the general fixed assets account group in the amount \$432,687 and in the enterprise funds in the amount of \$2,000. This amount represents the present value of the minimum lease payments at the time acquisition. A corresponding liability was recorded in the general long-term obligations account group and in the enterprise funds. Principal payments in 1998 totaled \$46,025 in governmental funds and \$402 in the enterprise funds.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 1998.

<u>Year Ending December 31,</u>	<u>GLTOAG</u>	<u>Enterprise</u>
1999	\$70,945	\$876
2000	48,872	804
2001	48,872	0
2002	48,872	0
2003	48,872	0
2004	48,872	0
Total Minimum Lease Payments	<u>315,305</u>	<u>1,680</u>
Less: Amount Representing Interest	<u>(50,928)</u>	<u>(439)</u>
Present Value of Minimum Lease Payments	<u>\$264,377</u>	<u>\$1,241</u>

NOTE 19 - OUTSTANDING CONTRACTUAL COMMITMENTS

As of December 31, 1998, the City had contractual purchase commitments as follows:

<u>Project</u>	<u>Outstanding Balance</u>
Water Change Management Project	\$105,985
Water Treatment Improvement	297,197
Sewer Filter Press	202,000
Sewer Change Management Project	113,839
Engineering Services	422,433
Combination Sewer Cleaner Truck	199,850
Sewer Lining Project	239,763
Parking Garage Project	2,765,018
Lima Signal System Improvement	128,247
Brower Road Reconstruction	954,291

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 20 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The City's enterprise funds account for the provision of water, sewer, and refuse. Key financial information as of and for the year ended December 31, 1998, for each enterprise fund is as follows:

Description	Water	Sewer	Refuse	Total
Operating Revenues	\$8,071,933	\$7,807,820	\$2,128,891	\$18,008,644
Depreciation Expense	(761,063)	(1,064,954)	0	(1,826,017)
Operating Income	2,610,660	2,376,816	164,698	5,152,174
Net Income	2,515,026	2,054,505	239,698	4,809,229
Residual Equity Transfers out	1,810	11,711	0	13,521
Current Capital Contributions				
from Tap in Fees	126,135	0	0	126,135
Fixed Assets:				
Additions	1,121,558	1,250,613	0	2,372,171
Deletions	32,815	51,921	0	84,736
Net Working Capital	2,643,010	1,071,004	621,872	4,335,886
Total Assets	20,721,634	24,610,585	774,367	46,106,586
Bonds and Other Long-Term Obligations:				
Revenue Bonds Payable	6,495,000	6,850,000	0	13,345,000
OWDA Loans	0	1,543,943	0	1,543,943
Compensated Absences	323,253	330,448	5,489	659,190
Capital Leases	0	365	0	365
Advance from Other Funds	0	372,240	0	372,240
Total Equity	12,759,215	14,554,700	616,383	27,930,298
Encumbrances Outstanding Budget Basis at December 31, 1998	1,152,254	1,745,180	0	2,897,434

NOTE 21 - CONTINGENT LIABILITIES

A. Litigation

As of December 31, 1998, 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.

B. 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 adverse effect on the overall financial position of the City at December 31, 1998.

City of Lima, Ohio
Notes to the General Purpose Financial Statements
For the Year Ended December 31, 1998

NOTE 22 - SUBSEQUENT EVENT

The City issued \$7,425,000 in general obligation (limited tax) various purpose refunding and improvement bonds. The bonds are dated September 1, 1999, bear interest from 4.00% to 5.80%, and will mature in 2019. The proceeds of the refunding bonds in the amount of \$6,450,804 were used to advance refund \$5,015,000 of the 1992 water and sewer refunding and improvement bonds and the outstanding balance of \$1,035,000 of the 1988 municipal center bonds. The proceeds from the improvement bonds, in the amount of \$484,976 and \$717,458, were used to finance the acquisition of recyclable trash containers and the construction of an off street parking garage, respectively.



City of Lima, Ohio
Reports on Federal Awards in Accordance With OMB Circular A-133
December 31, 1998
(With Independent Auditors' Reports Thereon)

CITY OF LIMA, OHIO

Report on Federal Awards in Accordance with OMB Circular A-133

Year ended December 31, 1998

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**Independent Auditors' Report on Compliance and on
Internal Control Over Financial Reporting Based on an
Audit of Financial Statements Performed in Accordance
With Government Auditing Standards**

The Honorable City Mayor
City of Lima, Ohio

and

The Honorable Jim Petro
Auditor of State

We have audited the general purpose financial statements of the City of Lima, Ohio (the City), as of and for the year ended December 31, 1998, and have issued our report thereon dated January 14, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial statement audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated January 14, 2000.

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 general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 98-1 and 98-2.





A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above are material weaknesses. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the City in a separate letter dated January 14, 2000.

This report is intended solely for the information and use of the finance committee, 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 these specified parties.

KPMG LLP

January 14, 2000



Two Nationwide Plaza
Columbus, OH 43215

Telephone 614 249 2300
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**Independent Auditors' Report on Compliance with
Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with OMB
Circular A-133 and Schedule of Expenditures of Federal Awards**

The Honorable City Mayor
City of Lima, Ohio

and

The Honorable Jim Petro
Auditor of State Board of Trustees:

Compliance

We have audited the compliance of The 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 its major federal program for the year ended December 31, 1998. The City's major federal program is identified in the "Summary of Auditors' Results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

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





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.

We noted one item involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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. However, we believe that the reportable condition described above is not a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the general purpose financial statements of the City as of and for the year ended December 31, 1998, and have issued our report thereon dated January 14, 2000. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

This report is intended solely for the information and use of the finance committee, 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 these specified parties.

KPMG LLP

January 14, 2000

CITY OF LIMA, OHIO

Schedule of Expenditures of Federal Awards

Year ended December 31, 1998

Federal Grantor/Program Title	<u>CFDA Number</u>	<u>Agency or Pass through Number</u>	<u>Expenditures</u>
U.S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant	14.218	MC-39-0014	\$ 1,598,660
HOME Renewal Program	14.239	MC-39-0219	362,578
HOME Renewal Loan Program	14.239	MC-39-0219	141,556
HUD Drug Elimination Grant FY96	14.193	N/A	8,773
Total U.S. Department of Housing and Urban Development			<u>2,111,567</u>
U.S. Department of Justice			
Direct Programs:			
COPS Program	16.710	CM-WX-0890	88,354
Weed & Seed Core	16.595	DD-BX-0147	150,869
Weed & Seed asset for forfeiture	16.580	WS-QX-0019	125,933
DARE	16.579	N/A	18,272
Federal Law Enforcement Block Grant	16.592	N/A	229,304
Total Direct Programs			<u>612,732</u>
Pass through Ohio Dept. of Justice			
Byrne Grant	16.540	DG-BOZ-7032	37,509
Total U.S. Department of Justice			<u>650,241</u>
Environmental Protection Agency			
Brownfield Pilot Project	66.811	N/A	127,131
Total federal assistance			<u>\$ 2,888,939</u>

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, 1998

(1) General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the 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 in expenses are recognized when paid.

(3) Loan Program

The City had the following loan balances outstanding at December 31, 1998. These loan balances outstanding are also included in the federal expenditures presented in the Schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
Home Renewal Loan Program (Rental Assistance)	14.239	\$141,556

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 1998

(1) Summary of Auditors' Results:

- | | | |
|-----|--|----------------------------------|
| (a) | <i>Type of report issued on the general purpose financial statements:</i> | Unqualified opinion |
| (b) | <i>Reportable conditions in internal control were disclosed by the audit of the financial statements:
Material weaknesses:</i> | Yes - see 98-1, 98-2 below
No |
| (c) | <i>Noncompliance which is material to the general purpose financial statements:</i> | No |
| (d) | <i>Reportable conditions in internal control over major programs:
Material weaknesses:</i> | Yes - see 98-1 below
No |
| (e) | <i>Type of report issued on compliance for major programs:</i> | Unqualified opinion |
| (f) | <i>Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133:</i> | Yes |
| (g) | <i>Major program:</i> | CDBG (CFDA #14.218) |
| (h) | <i>Dollar threshold used to distinguish between Type A and Type B programs:</i> | \$300,000 |
| (i) | <i>Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:</i> | No |

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

98-1 (Repeated finding 97-1 from December 31, 1997)

The City has no monitoring system to ensure that all Federal Awards are properly identified and reported upon in the Schedule of Expenditures of Federal Awards (the Schedule). We were able to extend our procedures to assist the City in identifying and completing the Schedule. However, this lack of an identification and monitoring system may result in incomplete financial information being reported, thus resulting in the potential for fines and or loss of future funding.

We recommend the City implement procedures to ensure a Schedule of Federal Financial Assistance is prepared annually for the Single Audit.

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

98-2

City personnel had difficulty in explaining transactions that occurred during the year on a cash basis and at year-end on an accrual basis (GAAP basis). Even though the City receives accrual assistance at year-end, one of the City's fundamental responsibilities is to take ownership of its financial reporting process, which includes an understanding of the basic general purpose financial statements and the related notes to these statements.

The City should review financial statements and related accounts throughout the year. This review will 1) enhance the City's understanding of day to day activities, 2) help ensure consistent classification of revenues and expenditures from year to year, and 3) help to mitigate the potential for errors and/or irregularities to occur.

(3) Findings and Questioned Costs Relating to Federal Awards:

98-1 (see above)

**CITY OF LIMA, OHIO
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 1998**

REFERENCE	REPORTABLE CONDITION	STATUS	CONTACT PERSON
98-1	THE CITY HAS NO MONITORING SYSTEM TO ENSURE THAT ALL FEDERAL FUNDS ARE PROPERLY IDENTIFIED AND REPORTED UPON IN THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.	THIS WILL BE CORRECTED IN 2000.	GENE REAMAN AUDITOR (419) 228-5462



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140
Telephone 614-466-4514
800-282-0370
Facsimile 614-466-4490

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.

By: Susan Babbitt

Date: APRIL 4, 2000