

CITY OF LIMA, OHIO

General Purpose Financial Statements

December 31, 2000

(With Independent Accountants' Report Thereon)



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
www.auditor.state.oh.us

Members of City Council
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, 2000 through December 31, 2000. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

A handwritten signature in black ink, appearing to read "Jim Petro".

JIM PETRO
Auditor of State

January 3, 2003

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City of Lima, Ohio
General Purpose Financial Statements
Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Accountants' Report..... | 1 |
| General Purpose Financial Statements | |
| Combined Balance Sheet - All Fund Types and Account Groups | 2 |
| Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Fund..... | 6 |
| Combined Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Non-GAAP Budgetary Basis) - All Governmental Fund Types and Expendable Trust Fund | 7 |
| Combined Statement of Revenues, Expenses, and Changes in Retained Earnings - All Proprietary Fund Types | 10 |
| Combined Statement of Cash Flows - All Proprietary Fund Types..... | 11 |
| Notes to the General Purpose Financial Statements | 13 |



191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

Independent Accountants' Report

Members of City Council
City of Lima, Lima Ohio

We were engaged to audit the accompanying general purpose financial statements of the City of Lima, Ohio (the City), as of and for the year ended December 31, 2000. These financial statements are the responsibility of the City's management.

The City did not maintain its accounting records currently during 2000, thus requiring reconstruction of certain records subsequent to December 31, 2000, and substantial adjustments to accounts. Adequate evidential matter in support of recorded transactions and adjustment was not available in all cases. Additionally, management did not provide knowledgeable representation of facts and circumstances regarding certain transactions arising during 2000. It was impracticable to extend our procedures sufficiently to determine the extent to which the general purpose financial statements as of and for the year ended December 31, 2000 may have been affected by these conditions.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the accompanying general purpose financial statements as of and for the year ended December 31, 2000.

KPMG LLP

December 11, 2002

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CITY OF LIMA - ALLEN COUNTY

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2000

| | Governmental Fund Types | | | |
|--|--------------------------------|------------------------|---------------------|-------------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Assets and Other Debits | | | | |
| Assets | | | | |
| Assets: | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$ 2,040,408 | \$ 1,253,223 | \$ 75,088 | \$ 699,767 |
| Cash and Cash Equivalents in Segregated | | | | |
| Accounts | 0 | 0 | 211,753 | 0 |
| Cash and Cash Equivalents with Fiscal and | | | | |
| Escrow Agents | 0 | 0 | 49,138 | 0 |
| Receivables: | | | | |
| Taxes | 3,542,901 | 17,039 | 0 | 0 |
| Accounts | 122,407 | 6,325 | 0 | 0 |
| Intergovernmental | 335,160 | 464,702 | 0 | 20,758 |
| Special Assessments | 0 | 623,554 | 1,653,464 | 0 |
| Accrued Interest | 115,305 | 0 | 556 | 0 |
| Interfund Receivable | 380,457 | 0 | 11,448 | 0 |
| Materials and Supplies Inventory | 0 | 34,696 | 0 | 0 |
| Due From Other Funds | 0 | 0 | 101,612 | 0 |
| Notes Receivable | 0 | 1,693,824 | 0 | 0 |
| Prepaid Items | 30,171 | 0 | 0 | 0 |
| Unamortized Bond Issuance 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 |
| Total Assets | <u>6,566,809</u> | <u>4,093,363</u> | <u>2,103,059</u> | <u>720,525</u> |
| 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 Other Debits | <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> |
| Total Assets and Other Debits | <u>\$ 6,566,809</u> | <u>\$ 4,093,363</u> | <u>\$ 2,103,059</u> | <u>\$ 720,525</u> |

See accompanying notes to General Purpose Financial Statements.

| Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Totals (Memorandum Only) |
|------------------------|-------------------|----------------------|----------------------|-------------------------------|--------------------------|
| Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long-Term Obligations | |
| \$ 12,291,273 | \$ 513,507 | \$ 307,080 | \$ 0 | \$ 0 | \$ 17,180,346 |
| 719,256 | 47,866 | 284,379 | 0 | 0 | 1,263,254 |
| 0 | 0 | 0 | 0 | 0 | 49,138 |
| 0 | 0 | 0 | 0 | 0 | 3,559,940 |
| 2,658,314 | 0 | 0 | 0 | 0 | 2,787,046 |
| 0 | 0 | 0 | 0 | 0 | 820,620 |
| 0 | 0 | 0 | 0 | 0 | 2,277,018 |
| 1,008 | 0 | 221 | 0 | 0 | 117,090 |
| 79,056 | 0 | 17,496 | 0 | 0 | 488,457 |
| 105,551 | 0 | 0 | 0 | 0 | 140,247 |
| 181,163 | 0 | 40,093 | 0 | 0 | 322,868 |
| 0 | 0 | 0 | 0 | 0 | 1,693,824 |
| 46,313 | 0 | 0 | 0 | 0 | 76,484 |
| 319,754 | 0 | 0 | 0 | 0 | 319,754 |
| 3,891,577 | 0 | 0 | 0 | 0 | 3,891,577 |
| 1,227,787 | 0 | 0 | 0 | 0 | 1,227,787 |
| 212,240 | 0 | 0 | 0 | 0 | 212,240 |
| 35,913,530 | 0 | 0 | 24,213,094 | 0 | 60,126,624 |
| <u>57,646,822</u> | <u>561,373</u> | <u>649,269</u> | <u>24,213,094</u> | <u>0</u> | <u>96,554,314</u> |
| 0 | 0 | 0 | 0 | 387,202 | 387,202 |
| 0 | 0 | 0 | 0 | 4,882,676 | 4,882,676 |
| 0 | 0 | 0 | 0 | 217,645 | 217,645 |
| <u>0</u> | <u>0</u> | <u>0</u> | <u>0</u> | <u>5,487,523</u> | <u>5,487,523</u> |
| <u>\$ 57,646,822</u> | <u>\$ 561,373</u> | <u>\$ 649,269</u> | <u>\$ 24,213,094</u> | <u>\$ 5,487,523</u> | <u>\$ 102,041,837</u> |

(continued)

CITY OF LIMA - ALLEN COUNTY

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2000

| | Governmental Fund Type | | | |
|---|------------------------|---------------------|---------------------|-------------------|
| | General | Special Revenue | Debt Service | Capital Projects |
| Liabilities and Fund Equity | | | | |
| Liabilities | | | | |
| Accounts Payable | \$ 624,553 | \$ 67,959 | \$ 0 | \$ 37,680 |
| Contracts Payable | 83,006 | 59,378 | 0 | 0 |
| Interfund Payable | 0 | 488,457 | 0 | 0 |
| Accrued Wages | 251,809 | 10,762 | 0 | 1,079 |
| Compensated Absences Payable | 0 | 0 | 0 | 0 |
| Intergovernmental Payable | 392,963 | 37,809 | 0 | 1,872 |
| Deferred Revenue | 3,366,861 | 623,554 | 1,653,464 | 0 |
| Undistributed Assets | 0 | 0 | 0 | 0 |
| Deposits Held and Due to Others | 0 | 0 | 0 | 0 |
| Matured Bonds and Interest Payable | 0 | 0 | 62,393 | 0 |
| Accrued Interest Payable | 0 | 0 | 0 | 0 |
| Claims Payable | 0 | 0 | 0 | 0 |
| Loans Payable | 0 | 0 | 0 | 0 |
| Due to Other Funds | 0 | 322,868 | 0 | 0 |
| Payables from Restricted Assets: | | | | |
| Refundable Deposits | 0 | 0 | 0 | 0 |
| Interest Payable | 0 | 0 | 0 | 0 |
| Judgments Payable | 0 | 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 |
| General Obligation Bonds Payable (Net, where applicable, of unamortized discount and accounting loss) | 0 | 0 | 0 | 0 |
| Revenue Bonds Payable | 0 | 0 | 0 | 0 |
| Special Assessment Debt with Governmental Commitment | 0 | 0 | 0 | 0 |
| Total Liabilities | <u>4,719,192</u> | <u>1,610,787</u> | <u>1,715,857</u> | <u>40,631</u> |
| 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 | 507,072 | 253,441 | 0 | 126,482 |
| Reserved for Notes Receivable | 0 | 1,693,824 | 0 | 0 |
| Reserved for Inventory | 0 | 34,696 | 0 | 0 |
| Reserved for Prepaids | 30,171 | 0 | 0 | 0 |
| Unreserved | 1,310,374 | 500,615 | 387,202 | 553,412 |
| Total Fund Equity (Deficit) and Other Credits | <u>1,847,617</u> | <u>2,482,576</u> | <u>387,202</u> | <u>679,894</u> |
| Total Liabilities, Fund Equity and Other Credits | <u>\$ 6,566,809</u> | <u>\$ 4,093,363</u> | <u>\$ 2,103,059</u> | <u>\$ 720,525</u> |

See accompanying notes to General Purpose Financial Statements.

| Proprietary Fund Types | | Fiduciary Fund Types | Account Groups | | Totals (Memorandum Only) |
|------------------------|------------------|----------------------|----------------------|-------------------------------|--------------------------|
| Enterprise | Internal Service | Trust and Agency | General Fixed Assets | General Long-Term Obligations | |
| \$ 802,029 | \$ 33,013 | \$ 2,476 | \$ 0 | \$ 0 | \$ 1,567,710 |
| 0 | 0 | 0 | 0 | 0 | 142,384 |
| 0 | 0 | 0 | 0 | 0 | 488,457 |
| 77,611 | 0 | 0 | 0 | 0 | 341,261 |
| 676,028 | 0 | 0 | 0 | 2,218,532 | 2,894,560 |
| 138,101 | 0 | 0 | 0 | 350,801 | 921,546 |
| 0 | 0 | 0 | 0 | 0 | 5,643,879 |
| 0 | 47,866 | 373,004 | 0 | 0 | 420,870 |
| 0 | 0 | 115,183 | 0 | 0 | 115,183 |
| 0 | 0 | 0 | 0 | 0 | 62,393 |
| 31,432 | 0 | 0 | 0 | 0 | 31,432 |
| 0 | 709,605 | 0 | 0 | 0 | 709,605 |
| 0 | 0 | 0 | 0 | 133,572 | 133,572 |
| 0 | 0 | 0 | 0 | 0 | 322,868 |
| 236,007 | 0 | 0 | 0 | 0 | 236,007 |
| 30,244 | 0 | 0 | 0 | 0 | 30,244 |
| 0 | 0 | 0 | 0 | 110,000 | 110,000 |
| 212,240 | 0 | 0 | 0 | 0 | 212,240 |
| 0 | 0 | 0 | 0 | 308,618 | 308,618 |
| 8,200,653 | 0 | 0 | 0 | 0 | 8,200,653 |
| 5,047,220 | 0 | 0 | 0 | 1,865,000 | 6,912,220 |
| 7,750,000 | 0 | 0 | 0 | 0 | 7,750,000 |
| 0 | 0 | 0 | 0 | 501,000 | 501,000 |
| 23,201,565 | 790,484 | 490,663 | 0 | 5,487,523 | 38,056,702 |
| 0 | 0 | 0 | 24,213,094 | 0 | 24,213,094 |
| 11,548,749 | 0 | 0 | 0 | 0 | 11,548,749 |
| 1,600,000 | 0 | 0 | 0 | 0 | 1,600,000 |
| 2,055,570 | 0 | 0 | 0 | 0 | 2,055,570 |
| 19,240,938 | (229,111) | 0 | 0 | 0 | 19,011,827 |
| 0 | 0 | 0 | 0 | 0 | 886,995 |
| 0 | 0 | 0 | 0 | 0 | 1,693,824 |
| 0 | 0 | 0 | 0 | 0 | 34,696 |
| 0 | 0 | 0 | 0 | 0 | 30,171 |
| 0 | 0 | 158,606 | 0 | 0 | 2,910,209 |
| 34,445,257 | (229,111) | 158,606 | 24,213,094 | 0 | 63,985,135 |
| \$ 57,646,822 | \$ 561,373 | \$ 649,269 | \$ 24,213,094 | \$ 5,487,523 | \$ 102,041,837 |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

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

For the Year Ended December 31, 2000

| | Governmental Fund Types | | | | Fiduciary Fund Type | Totals (Memorandum Only) |
|---|-------------------------|---------------------|-------------------|---------------------|------------------------|--------------------------------|
| | General | Special Revenue | Debt Service | Capital Projects | Expendable Trust | |
| Revenues: | | | | | | |
| Property Taxes | \$ 1,064,499 | \$ 17,039 | \$ 0 | \$ 0 | \$ 0 | \$ 1,081,538 |
| Municipal Income Taxes | 13,996,153 | 0 | 0 | 0 | 0 | 13,996,153 |
| Other Local Taxes | 0 | 74,359 | 0 | 0 | 0 | 74,359 |
| Intergovernmental | 3,807,999 | 4,944,287 | 0 | 487,451 | 0 | 9,239,737 |
| Charges for Services | 991,380 | 337,196 | 0 | 0 | 0 | 1,328,576 |
| Fees, Licenses and Permits | 687,848 | 0 | 0 | 0 | 0 | 687,848 |
| Fines and Forfeitures | 1,167,384 | 151,757 | 0 | 322,003 | 0 | 1,641,144 |
| Special Assessments | 0 | 0 | 658,395 | 0 | 0 | 658,395 |
| Investment Income | 1,428,429 | 73,916 | 6,043 | 0 | 0 | 1,508,388 |
| Miscellaneous | 215,784 | 198,952 | 0 | 18,116 | 20,504 | 453,356 |
| Total Revenues | <u>23,359,476</u> | <u>5,797,506</u> | <u>664,438</u> | <u>827,570</u> | <u>20,504</u> | <u>30,669,494</u> |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 13,063,133 | 932,484 | 0 | 0 | 0 | 13,995,617 |
| Leisure Time Activities | 876,168 | 44,473 | 0 | 0 | 0 | 920,641 |
| Community Environment | 758,236 | 3,389,972 | 0 | 0 | 0 | 4,148,208 |
| Transportation | 1,729,333 | 1,318,712 | 0 | 0 | 0 | 3,048,045 |
| General Government | 6,932,759 | 63,576 | 0 | 0 | 7,938 | 7,004,273 |
| Capital Outlay | 1,612,840 | 0 | 0 | 907,425 | 0 | 2,520,265 |
| Principal Retirement | 107,675 | 0 | 543,844 | 0 | 0 | 651,519 |
| Interest and Fiscal Charges | 23,075 | 0 | 184,968 | 0 | 0 | 208,043 |
| Total Expenditures | <u>25,103,219</u> | <u>5,749,217</u> | <u>728,812</u> | <u>907,425</u> | <u>7,938</u> | <u>32,496,611</u> |
| Excess of Revenues Over (Under) Expenditures | (1,743,743) | 48,289 | (64,374) | (79,855) | 12,566 | (1,827,117) |
| Other Financing Sources (Uses): | | | | | | |
| Proceeds of Bonds | 0 | 0 | 0 | 195,000 | 0 | 195,000 |
| Inception of Capital Lease | 104,890 | 0 | 0 | 0 | 0 | 104,890 |
| Operating Transfers - In | 0 | 91,000 | 112,441 | 0 | 0 | 203,441 |
| Operating Transfers - Out | (162,028) | (41,413) | 0 | 0 | 0 | (203,441) |
| Total Other Financing Sources (Uses) | <u>(57,138)</u> | <u>49,587</u> | <u>112,441</u> | <u>195,000</u> | <u>0</u> | <u>299,890</u> |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses) | (1,800,881) | 97,876 | 48,067 | 115,145 | 12,566 | (1,527,227) |
| Fund Balances at Beginning Of Year | 3,648,498 | 2,384,700 | 339,135 | 564,749 | 129,550 | 7,066,632 |
| Fund Balances at End of Year | <u>\$ 1,847,617</u> | <u>\$ 2,482,576</u> | <u>\$ 387,202</u> | <u>\$ 679,894</u> | <u>\$ 142,116</u> | <u>\$ 5,539,405</u> |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types and Expendable Trust Fund*

For the Year Ended December 31, 2000

| | General Fund | | | Special Revenue Funds | | |
|---|-----------------------|-------------------|----------------------------------|-----------------------|---------------------|----------------------------------|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Property Taxes | \$ 1,086,700 | \$ 1,064,499 | \$ (22,201) | \$ 0 | \$ 0 | \$ 0 |
| Municipal Income Tax | 13,760,000 | 14,085,993 | 325,993 | 0 | 0 | 0 |
| Other Local Taxes | 0 | 0 | 0 | 60,000 | 70,641 | 10,641 |
| Intergovernmental | 3,872,660 | 4,196,291 | 323,631 | 6,433,000 | 4,686,654 | (1,746,346) |
| Charges for Services | 1,726,075 | 1,495,016 | (231,059) | 315,000 | 334,094 | 19,094 |
| Fees, Licenses and Permits | 686,250 | 687,686 | 1,436 | 0 | 0 | 0 |
| Revolving Loan Payments | 0 | 0 | 0 | 0 | 314,892 | 314,892 |
| Fines and Forfeitures | 1,200,000 | 1,186,286 | (13,714) | 68,550 | 151,321 | 82,771 |
| Special Assessments | 0 | 0 | 0 | 0 | 0 | 0 |
| Investment Income | 850,000 | 1,078,674 | 228,674 | 0 | 73,873 | 73,873 |
| Miscellaneous | 51,520 | 34,257 | (17,263) | 0 | 167,055 | 167,055 |
| Total Revenues | 23,233,205 | 23,828,702 | 595,497 | 6,876,550 | 5,798,530 | (1,078,020) |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 13,230,404 | 13,124,267 | 106,137 | 1,771,338 | 1,344,128 | 427,210 |
| Leisure Time Activities | 901,858 | 883,640 | 18,218 | 75,801 | 45,059 | 30,742 |
| Community Environment | 782,084 | 759,266 | 22,818 | 3,957,066 | 3,903,018 | 54,048 |
| Transportation | 1,984,657 | 1,958,187 | 26,470 | 1,730,331 | 1,367,350 | 362,981 |
| General Government | 7,093,289 | 6,951,608 | 141,681 | 64,000 | 63,577 | 423 |
| Capital Outlay | 1,843,864 | 1,762,403 | 81,461 | 0 | 0 | 0 |
| Debt Service | | | | | | |
| Principal Retirement | 0 | 15,000 | (15,000) | 0 | 0 | 0 |
| Interest | 0 | 54,928 | (54,928) | 0 | 41,413 | (41,413) |
| Total Expenditures | 25,836,156 | 25,509,299 | 326,857 | 7,598,536 | 6,764,545 | 833,991 |
| Excess of Revenue Over (Under) Expenditures | (2,602,951) | (1,680,597) | 922,354 | (721,986) | (966,015) | (244,029) |
| Other Financing Sources (Uses): | | | | | | |
| Other Financing Sources | 193,000 | 207,473 | 14,473 | 0 | 0 | 0 |
| Proceeds of Bonds | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds from Disposal of Fixed Assets | 7,500 | 0 | (7,500) | 0 | 0 | 0 |
| Operating Transfers In | 0 | 0 | 0 | 40,000 | 91,000 | 51,000 |
| Operating Transfers Out | (878,028) | (342,100) | 535,928 | (41,413) | 0 | 41,413 |
| Other Financing Sources (Uses) | (677,528) | (134,627) | 542,901 | (1,413) | 91,000 | 92,413 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (3,280,479) | (1,815,224) | 1,465,255 | (723,399) | (875,015) | (151,616) |
| Fund Balances at Beginning of Year | 1,865,610 | 1,865,610 | 0 | 204,969 | 204,969 | 0 |
| Prior Year's Encumbrances Carried Over | 140,203 | 140,203 | 0 | 40,861 | 40,861 | 0 |
| Fund Balances at End of Year | \$ (1,274,666) | \$ 190,589 | \$ 1,465,255 | \$ (477,569) | \$ (629,185) | \$ (151,616) |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types and Expendable Trust Fund*

For the Year Ended December 31, 2000

| | Debt Service Fund | | | Capital Projects Funds | | |
|---|-------------------|------------------|--|------------------------|-------------------|--|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised 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 | 487,451 | 487,451 | 0 |
| 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 | 295,000 | 327,877 | 32,877 |
| Special Assessments | 283,065 | 270,256 | (12,809) | 0 | 0 | 0 |
| Investment Income | 0 | 0 | 0 | 0 | 0 | 0 |
| Miscellaneous | 0 | 0 | 0 | 0 | 18,116 | 18,116 |
| Total Revenues | 283,065 | 270,256 | (12,809) | 782,451 | 833,444 | 50,993 |
| 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 | 1,150,451 | 1,005,302 | 145,149 |
| Debt Service | | | | | | |
| Principal Retirement | 601,521 | 601,497 | 24 | 0 | 0 | 0 |
| Interest | 511,064 | 511,064 | 0 | 0 | 0 | 0 |
| Total Expenditures | 1,112,585 | 1,112,561 | 24 | 1,150,451 | 1,005,302 | 145,149 |
| Excess of Revenue Over (Under) Expenditures | (829,520) | (842,305) | (12,785) | (368,000) | (171,858) | 196,142 |
| Other Financing Sources (Uses): | | | | | | |
| Other Financing Sources | 0 | 0 | 0 | 0 | 0 | 0 |
| Proceeds of Bonds | 0 | 0 | 0 | 150,000 | 195,000 | 45,000 |
| Proceeds from Disposal of Fixed Assets | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Transfers In | 828,420 | 829,520 | 1,100 | 0 | 0 | 0 |
| Operating Transfers Out | 0 | 0 | 0 | 0 | 0 | 0 |
| Other Financing Sources (Uses) | 828,420 | 829,520 | 1,100 | 150,000 | 195,000 | 45,000 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (1,100) | (12,785) | (11,685) | (218,000) | 23,142 | 241,142 |
| Fund Balances at Beginning of Year | 87,873 | 87,873 | 0 | 525,757 | 525,757 | 0 |
| Prior Year's Encumbrances Carried Over | 0 | 0 | 0 | 0 | 0 | 0 |
| Fund Balances at End of Year | \$ 86,773 | \$ 75,088 | \$ (11,685) | \$ 307,757 | \$ 548,899 | \$ 241,142 |

(continued)

CITY OF LIMA - ALLEN COUNTY

*Combined Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)
All Governmental Fund Types and Expendable Trust Fund*

For the Year Ended December 31, 2000

| | Expendable Trust Funds | | | Totals (Memorandum Only) | | |
|---|------------------------|-------------------|----------------------------------|--------------------------|-------------------|----------------------------------|
| | Revised Budget | Actual | Variance Favorable (Unfavorable) | Revised Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | | | | |
| Property Taxes | \$ 0 | \$ 0 | \$ 0 | \$ 1,086,700 | \$ 1,064,499 | \$ (22,201) |
| Municipal Income Tax | 0 | 0 | 0 | 13,760,000 | 14,085,993 | 325,993 |
| Other Local Taxes | 0 | 0 | 0 | 60,000 | 70,641 | 10,641 |
| Intergovernmental | 0 | 0 | 0 | 10,793,111 | 9,370,396 | (1,422,715) |
| Charges for Services | 0 | 0 | 0 | 2,041,075 | 1,829,110 | (211,965) |
| Fees, Licenses and Permits | 0 | 0 | 0 | 686,250 | 687,686 | 1,436 |
| Revolving Loan Payments | 0 | 0 | 0 | 0 | 314,892 | 314,892 |
| Fines and Forfeitures | 0 | 0 | 0 | 1,563,550 | 1,665,484 | 101,934 |
| Special Assessments | 0 | 0 | 0 | 283,065 | 270,256 | (12,809) |
| Investment Income | 0 | 0 | 0 | 850,000 | 1,152,547 | 302,547 |
| Miscellaneous | 10,000 | 20,504 | 10,504 | 61,520 | 239,932 | 178,412 |
| Total Revenues | 10,000 | 20,504 | 10,504 | 31,185,271 | 30,751,436 | (433,835) |
| Expenditures: | | | | | | |
| Current: | | | | | | |
| Security of Persons and Property | 0 | 0 | 0 | 15,001,742 | 14,468,395 | 533,347 |
| Leisure Time Activities | 0 | 0 | 0 | 977,659 | 928,699 | 48,960 |
| Community Environment | 0 | 0 | 0 | 4,739,150 | 4,662,284 | 76,866 |
| Transportation | 0 | 0 | 0 | 3,714,988 | 3,325,537 | 389,451 |
| General Government | 15,000 | 7,573 | 7,427 | 7,172,289 | 7,022,758 | 149,531 |
| Capital Outlay | 0 | 0 | 0 | 2,994,315 | 2,767,705 | 226,610 |
| Debt Service | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 601,521 | 616,497 | (14,976) |
| Interest | 0 | 0 | 0 | 511,064 | 607,405 | (96,341) |
| Total Expenditures | 15,000 | 7,573 | 7,427 | 35,712,728 | 34,399,280 | 1,313,448 |
| Excess of Revenue Over (Under) Expenditures | (5,000) | 12,931 | 17,931 | (4,527,457) | (3,647,844) | 879,613 |
| Other Financing Sources (Uses): | | | | | | |
| Other Financing Sources | 0 | 0 | 0 | 193,000 | 207,473 | 14,473 |
| Proceeds of Bonds | 0 | 0 | 0 | 150,000 | 195,000 | 45,000 |
| Proceeds from Disposal of Fixed Assets | 0 | 0 | 0 | 7,500 | 0 | (7,500) |
| Operating Transfers In | 0 | 0 | 0 | 868,420 | 920,520 | 52,100 |
| Operating Transfers Out | 0 | 0 | 0 | (919,441) | (342,100) | 577,341 |
| Other Financing Sources (Uses) | 0 | 0 | 0 | 299,479 | 980,893 | 681,414 |
| Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses | (5,000) | 12,931 | 17,931 | (4,227,978) | (2,666,951) | 1,561,027 |
| Fund Balances at Beginning of Year | 129,550 | 129,550 | 0 | 2,813,759 | 2,813,759 | 0 |
| Prior Year's Encumbrances Carried Over | 0 | 0 | 0 | 181,064 | 181,064 | 0 |
| Fund Balances at End of Year | \$ 124,550 | \$ 142,481 | \$ 17,931 | \$ (1,233,155) | \$ 327,872 | \$ 1,561,027 |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

*Combined Statement of Revenues, Expenses,
and Changes in Retained Earnings
All Proprietary Fund Types*

For the Year Ended December 31, 2000

| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Totals (Memorandum Only)</u> |
|---|----------------------|-----------------------------|---|
| Operating Revenue: | | | |
| Charges for Services | \$ 18,595,455 | \$ 4,795,769 | \$ 23,391,224 |
| Recycled Sales | 174,376 | 475,981 | 650,357 |
| Miscellaneous | 23,391 | 0 | 23,391 |
| Other Operating Revenues | <u>72,375</u> | <u>22,378</u> | <u>94,753</u> |
| Total Operating Revenues | <u>18,865,597</u> | <u>5,294,128</u> | <u>24,159,725</u> |
| Operating Expenses: | | | |
| Salaries | 3,882,383 | 0 | 3,882,383 |
| Fringe Benefits | 1,663,364 | 0 | 1,663,364 |
| Claims Expense | 0 | 3,630,932 | 3,630,932 |
| Other Services and Charges | 7,541,294 | 525,063 | 8,066,357 |
| Depreciation | <u>1,848,591</u> | <u>0</u> | <u>1,848,591</u> |
| Total Operating Expenses | <u>14,935,632</u> | <u>4,155,995</u> | <u>19,091,627</u> |
| Operating Income | 3,929,965 | 1,138,133 | 5,068,098 |
| Non-Operating Revenues (Expenses): | | | |
| Investment Income | 737,818 | 0 | 737,818 |
| Interest and Fiscal Charges | <u>(1,267,467)</u> | <u>0</u> | <u>(1,267,467)</u> |
| Total Non-Operating Revenues (Expenses) | <u>(529,649)</u> | <u>0</u> | <u>(529,649)</u> |
| Net Income | 3,400,316 | 1,138,133 | 4,538,449 |
| Depreciation on Fixed Assets Acquired by Contributed Capital | 254,009 | 0 | 254,009 |
| Retained Earnings (Deficit) at Beginning of Year | <u>19,242,183</u> | <u>(1,367,244)</u> | <u>17,874,939</u> |
| Retained Earnings (Deficit) at End of Year | 22,896,508 | (229,111) | 22,667,397 |
| Contributed Capital at Beginning of Year | 11,206,175 | 0 | 11,206,175 |
| Contributed Capital from Tap-in Fees | 115,341 | 0 | 115,341 |
| Assets acquired by Contributed Capital | 481,242 | 0 | 481,242 |
| Depreciation on Fixed Assets acquired by Contributed Capital | <u>(254,009)</u> | <u>0</u> | <u>(254,009)</u> |
| Contributed Capital at End of Year | <u>11,548,749</u> | <u>0</u> | <u>11,548,749</u> |
| Total Fund Equity (Deficit) at End of Year | <u>\$ 34,445,257</u> | <u>\$ (229,111)</u> | <u>\$ 34,216,146</u> |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

Combined Statement of Cash Flows
All Proprietary Fund Types

For the Year Ended December 31, 2000

| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Total (Memorandum Only)</u> |
|---|----------------------|-----------------------------|--|
| Cash Flows from Operating Activities | | | |
| Cash Received from Customers | \$ 17,518,790 | \$ 475,981 | \$ 17,994,771 |
| Cash Received from Quasi-External Operating Transactions with Other Funds | 0 | 4,560,492 | 4,560,492 |
| Cash Payments for Personal Services | (3,882,383) | 0 | (3,882,383) |
| Cash Payments for Fringe Benefits | (1,663,364) | 0 | (1,663,364) |
| Cash Payments for Claims | 0 | (4,469,853) | (4,469,853) |
| Cash Payments for Other Services and Charges | (6,341,447) | (223,674) | (6,565,121) |
| Other Operating Receipts | <u>72,375</u> | <u>22,378</u> | <u>94,753</u> |
| <i>Net Cash Provided by Operating Activities</i> | 5,703,971 | 365,324 | 6,069,295 |
| Cash Flows from Capital and Related Financing Activities: | | | |
| Acquisition and Construction of Capital Assets | (2,343,401) | 0 | (2,343,401) |
| Cash Received from Tap-In Fees | 115,341 | 0 | 115,341 |
| Principal Paid on Revenue Bonds | (580,000) | 0 | (580,000) |
| Principal Paid on General Obligation Bonds | (140,000) | 0 | (140,000) |
| Principal Paid on Capital Leases | (793) | 0 | (793) |
| Interest Paid on Debt Obligation | <u>(1,267,467)</u> | <u>0</u> | <u>(1,267,467)</u> |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(4,216,320)</u> | <u>0</u> | <u>(4,216,320)</u> |
| Cash Flows from Investing Activities: | | | |
| Proceeds from Investments | 150,419 | 0 | 150,419 |
| Cash Received from Interest | <u>737,818</u> | <u>0</u> | <u>737,818</u> |
| <i>Net Cash Used for Investing Activities</i> | <u>888,237</u> | <u>0</u> | <u>888,237</u> |
| Net Increase in Cash and Cash Equivalents | 2,375,888 | 365,324 | 2,741,212 |
| Cash and Cash Equivalents at Beginning of Year | <u>15,754,005</u> | <u>196,049</u> | <u>15,950,054</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 18,129,893</u> | <u>\$ 561,373</u> | <u>\$ 18,691,266</u> |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY

*Combined Statement of Cash Flows
All Proprietary Fund Types*

For the Year Ended December 31, 2000

| | <u>Enterprise</u> | <u>Internal Service</u> | <u>Total (Memorandum Only)</u> |
|---|---------------------|-----------------------------|--|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | | |
| Operating Income | \$ 3,929,965 | \$ 1,138,133 | \$ 5,068,098 |
| Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | |
| Depreciation Expense | 1,848,591 | 0 | 1,848,591 |
| Changes in Assets and Liabilities: | | | |
| Decrease in Accounts Receivable | 263,282 | 0 | 263,282 |
| Increase in Material and Supplies Inventory | (25,279) | 0 | (25,279) |
| Decrease in Prepaid Items | 6,659 | 0 | 6,659 |
| (Decrease) Increase in Accounts Payable | (365,055) | 18,246 | (346,809) |
| Decrease in Contracts Payable | (24,580) | 0 | (24,580) |
| Increase in Accrued Wages | 5,210 | 0 | 5,210 |
| Increase in Compensated Absences | 23,028 | 0 | 23,028 |
| Decrease in Retainage Payable | (24,146) | 0 | (24,146) |
| Increase in intergovernmental Payable | 61,356 | 0 | 61,356 |
| Decrease in Claims Payable | 0 | (838,921) | (838,921) |
| Increase in Deferred Revenue | 0 | 47,866 | 47,866 |
| Increase in Refundable Deposits | 4,940 | 0 | 4,940 |
| | <u>\$ 5,703,971</u> | <u>\$ 365,324</u> | <u>\$ 6,069,295</u> |
| <i>Net Cash Provided by Operating Activities</i> | | | |

See accompanying notes to General Purpose Financial Statements.

CITY OF LIMA - ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

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.

(continued)

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary 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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

liabilities of the current year end, which the City considers thirty-one days after year end.

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, 2000, and delinquent property taxes, whose availability is indeterminable and which are intended to finance 2001 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 2000.

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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2000.

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 2000 amounted to \$1,428,429.

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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2000, 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, 2000, 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 Issuance 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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2000, 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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 accounting principles generally accepted in the United States of America 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 - COMPLIANCE AND ACCOUNTABILITY

A. Compliance

The following accounts had expenditures (including encumbrances) in excess of appropriations, at the legal level of appropriation for the year ended December 31, 2000:

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

| | <u>Appropriations</u> | <u>Expenditures</u> | <u>Excess</u> |
|-------------------------------|-----------------------|---------------------|---------------|
| General Fund: | | | |
| Council Office | | | |
| Total Salaries | \$ 194,473 | \$ 195,082 | \$ (609) |
| Public Defender's Office | | | |
| Total Salaries | 675,191 | 678,890 | (3,699) |
| Department of Taxation | | | |
| Total Salaries | 541,492 | 541,797 | (305) |
| Schoonover Pool | | | |
| Total Salaries | 683,320 | 687,032 | (3,712) |
| Special Revenue Fund: | | | |
| DWI Enforcement & Education | | | |
| Total Salaries | 7,000 | 7,530 | (530) |
| Traffic/Parking Control Fund | | | |
| Total Salaries | 50,000 | 50,014 | (14) |
| Chip-Housing Improvement Fund | | | |
| Total Expenses | 530,000 | 553,570 | (23,570) |

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2000.

| <u>Fund Type/Fund</u> | <u>Estimated Resources</u> | <u>Appropriations</u> | <u>Excess</u> |
|-------------------------|----------------------------|-----------------------|---------------|
| Special Revenue Fund: | | | |
| Traffic/Parking Control | \$ 179,254 | \$ 688,155 | \$ (508,901) |
| Street Repair Fund | 1,450,831 | 1,640,331 | (189,500) |
| Law Enforcement Block | 217,089 | 241,761 | (24,672) |
| Fed Block Grants | 2,580,035 | 3,327,066 | (747,031) |
| Enterprise Fund: | | | |
| Water Improvement Fund | 8,643,352 | 9,340,664 | (697,312) |
| Internal Service Funds: | | | |
| Public Works Gasoline | 169,026 | 171,944 | (2,918) |

Section 5705.10, Revised Code, states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. The Street Repair special revenue fund had a deficit cash balance on a budgetary basis at year end in the amount of \$380,457. On a GAAP basis, the deficit cash is reported as an interfund payable to the General Fund.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 3 - COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

B. Accountability

At December 31, 2000, the Refuse enterprise fund had a deficit of \$(225,813) which was caused by the operating loss in the current year. The Health Benefits internal service fund had a deficit retained earnings of \$(229,111) 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 4 - 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 Balance - 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 Balance - 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 basis;
- (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); and
- (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);

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 4 - BUDGETARY BASIS OF ACCOUNTING (CONTINUED)

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 | | | | | |
|---|-----------------------|----------------------------|-------------------------|-----------------------------|-----------------------------|
| | <u>General</u> | <u>Special Revenue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Expandable Trust</u> |
| GAAP Basis | \$ (1,800,881) | \$ 97,876 | \$ 48,067 | \$ 115,145 | \$ 12,566 |
| Adjustments for: | | | | | |
| Revenue Accruals | 571,809 | 1,024 | 322,897 | 5,874 | 0 |
| Expenditure Accruals | 369,511 | (629,781) | (383,749) | 28,605 | 365 |
| Changes in Encumbrances Outstanding at Year End | <u>(955,663)</u> | <u>(344,134)</u> | <u>0</u> | <u>(126,482)</u> | <u>0</u> |
| Budget Basis | <u>\$ (1,815,224)</u> | <u>\$ (875,015)</u> | <u>\$ (12,785)</u> | <u>\$ 23,142</u> | <u>\$ 12,931</u> |

NOTE 5 - DEPOSITS AND INVESTMENTS

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

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

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including 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 – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (CONTINUED)

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 \$3,334,206 and the bank balance was \$3,660,438. Of the bank balance, \$437,937 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 deposit's collateral 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. STAR Ohio and mutual funds are an unclassified investment since it is not evidenced by securities that exist in physical or book entry form.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 5 - DEPOSITS AND INVESTMENTS (CONTINUED)

| Securities | Category | | | Carrying Value | Fair Value |
|---|-------------|---------------------|---------------------|----------------------|----------------------|
| | 1 | 2 | 3 | | |
| Repurchase Agreements | | | \$ 890,432 | \$ 890,432 | \$ 890,432 |
| Federal Home Loan Mortgage Corporation | | | | | |
| Mortgage Participation Certificates | | \$ 4,795,597 | | 4,795,597 | 4,795,597 |
| Federal Farm Credit Bank Construction Bonds | | 993,720 | | 993,720 | 993,720 |
| Federal National Mortgage Association | | | | | |
| Medium Term Notes | | 2,858,480 | | 2,858,480 | 2,858,480 |
| U.S. Treasury Notes | | | 2,987,344 | 2,987,344 | 2,987,344 |
| Certificates of Deposit | | | 4,460,590 | 4,460,590 | 4,460,590 |
| | <u>\$ 0</u> | <u>\$ 8,647,797</u> | <u>\$ 8,338,366</u> | <u>\$ 16,986,163</u> | <u>16,986,163</u> |
| Bank One Trust Money Market Deposit Account | | | | | 74,763 |
| STAR Ohio | | | | | <u>3,216,970</u> |
| Grand Total | | | | | <u>\$ 20,277,896</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\ | |
|---|-------------------------------|----------------------|
| | <u>Deposits</u> | <u>Investments</u> |
| GASB Statement No. 9 | \$ 23,612,102 | \$ 0 |
| Investments: | | |
| Repurchase Agreements | (890,432) | 890,432 |
| Federal Home Loan Mortgage Corporation | | |
| Mortgage Participation Certificates | (4,795,597) | 4,795,597 |
| Federal Farm Credit Bank Construction Bonds | (993,720) | 993,720 |
| Federal National Mortgage Association | | |
| Medium Term Notes | (2,858,480) | 2,858,480 |
| U.S. Treasury Notes | (2,987,344) | 2,987,344 |
| Certificates of Deposit | (4,460,590) | 4,460,590 |
| Bank One Trust Money Market Deposit Account | (74,763) | 74,763 |
| STAR Ohio | <u>(3,216,970)</u> | <u>3,216,970</u> |
| GASB Statement No. 3 | <u>\$ 3,334,206</u> | <u>\$ 20,277,896</u> |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 6 - INCOME TAX

The City levies and collects an income tax of 1.5 percent on all income earned within the City as well as incomes of residents earned outside the City. In the latter case, the City allows a credit of 100 percent of the tax paid to another municipality, not to exceed the amount owed. Employers within the City are required to withhold income tax on employee earnings and remit the tax 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.

NOTE 7 - PROPERTY TAXES

Property taxes include amounts levied against all real, public utility, and tangible personal property located in the City. Real property tax revenues received in 2000 represent the collection of 1999 taxes. For 2000, real property taxes were levied after October 1, 2000, on the assessed values as of January 1, 2000, the lien date. These taxes will be collected in and are intended to finance 2001 operations. Assessed values for real property taxes are established by State statute at 35 percent of appraised market value. All property is required to be revalued every six years. The last revaluation was completed in 1996. Real property taxes are payable annually or semiannually. The first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility real and tangible personal property taxes were levied after October 1, 2000, on the assessed values as of December 31, 1999, the lien date. Public utility real property is assessed at 35 percent of true value; tangible personal property is currently assessed at varying percentages of true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

Tangible personal property tax revenues received in 2000 (other than public utility property) represent the collection of 2000 taxes. For 2000, tangible personal property taxes were levied after October 1, 1999, on the true value as of December 31, 1999, the lien date. Tangible personal property is currently assessed at 25 percent of true value. Amounts paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. The first payment is due April 30, with the remainder payable by September 20.

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

Accrued property taxes receivable represents delinquent taxes outstanding and real, public utility, and tangible personal property taxes which were measurable, amounts to be received during the available period are not subject to reasonable estimation at December 31 and are not intended to finance 2000 operations.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 7 – PROPERTY TAXES (CONTINUED)

The full tax rate for all City operations for the year ended December 31, 2000, was \$3.90 per \$1,000 of assessed value. The assessed values of real and tangible personal property upon which 2000 property tax receipts were based are as follows:

| Category | Assessed Value |
|--------------------------|----------------|
| Real Estate | |
| Residential/Agricultural | \$ 178,738,940 |
| Commercial/Industrial | 92,511,650 |
| Tangible Personal | 51,179,951 |
| Public Utility Real | 179,230 |
| Public Utility Personal | 28,671,320 |
| Total | \$ 351,281,091 |

NOTE 8 - RECEIVABLES

Receivables at December 31, 2000, 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 | \$ 1,014,940 |
| Sewer | 1,319,303 |
| Refuse | 324,071 |
| Total | \$ 2,658,314 |

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$ 2,348,677 with uncollectible of \$654,853 at December 31, 2000. The notes are recorded net of an allowance for uncollectibles in the amount of \$1,693,824.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 8 – RECEIVABLES (CONTINUED)

A summary of the principal items of intergovernmental receivables follows:

| Fund Type/Fund/Source | Amounts |
|------------------------------------|----------------|
| GENERAL FUND | |
| Estate Taxes | 180,726 |
| Local Government | 30,916 |
| Lima Board of Education | 100 |
| Allen County | 12,080 |
| Municipal Court | 76,571 |
| Auditor of State | 22,632 |
| Water District Fees | 12,135 |
| Total General Fund | 335,160 |
| SPECIAL REVENUE FUNDS | |
| Indigent Alcohol Treatment | |
| Municipal Court | 1,581 |
| Drug, Enforcement and Education | |
| Municipal Court | 1,137 |
| Traffic Patrol Control | |
| Municipal Court | 3,296 |
| State Highway | |
| Allen County | 1,066 |
| Gasoline Excise Tax | 2,832 |
| Total State Highway | 3,898 |
| Street Repair | |
| Bureau of Workers' Compensation | 18,068 |
| Allen County | 13,142 |
| Gasoline Excise Tax | 34,922 |
| Total Street Repair | 66,132 |
| Law Enforcement Trustee | |
| Municipal Court | 14,454 |
| Hotel/Motel Tax Fund | 17,039 |
| Consolidated Warrant Fund Issue II | 357,165 |
| Total Special Revenue Funds | 464,702 |
| CAPITAL PROJECTS FUNDS | |
| Legal Research/Court Computers | |
| Municipal Court | 3,372 |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 8 – RECEIVABLES (CONTINUED)

| | |
|------------------------------|-------------------|
| Municipal Court | 12,233 |
| Court Capital Improvement | |
| Municipal Court | <u>5,153</u> |
| Total Capital Projects Funds | <u>20,758</u> |
| Grand Total | <u>\$ 820,620</u> |

NOTE 9 - FIXED ASSETS

A. General Fixed Assets

The summary of changes in general fixed assets during 2000 is as follows:

| | Balance 12/31/99 | Additions | Deletions | Balance 12/31/00 |
|--------------------------|----------------------|---------------------|---------------------|----------------------|
| Land | \$ 3,598,847 | \$ 446,216 | \$ 0 | \$ 4,045,063 |
| Buildings | 6,115,411 | 5,652,534 | 0 | 11,767,945 |
| Equipment | 3,911,372 | 764,370 | 359,387 | 4,316,355 |
| Vehicles | 4,005,958 | 274,107 | 196,334 | 4,083,731 |
| Construction in Progress | <u>4,662,007</u> | <u>0</u> | <u>4,662,007</u> | <u>0</u> |
| | <u>\$ 22,293,595</u> | <u>\$ 7,137,227</u> | <u>\$ 5,217,728</u> | <u>\$ 24,213,094</u> |

Construction in progress, consisting of a parking garage, was completed in 2000 and is reclassified to the appropriate balance.

B. Fund Fixed Assets

All fund fixed assets relate to the water, sewer, and refuse enterprise funds. The balances as of December 31, 2000, for the enterprise funds, the most recent years data was available, were as follows:

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

| | |
|---|----------------------|
| Land | \$ 1,112,622 |
| Buildings | 28,883,616 |
| Equipment | 17,311,078 |
| Vehicles | 2,779,789 |
| Water and Sewer Lines | 26,204,445 |
| Construction in Progress | <u>4,870,937</u> |
| Total Fund Fixed Assets | 81,162,487 |
| Less: Accumulated Depreciation | <u>(45,248,957)</u> |
| Total Fund Fixed Assets (net of accumulated depreciation) | <u>\$ 35,913,530</u> |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 10 - RISK MANAGEMENT

A. Self Insurance Program

The City has elected to provide employee medical and life benefits through a self insured program. All funds of the City participate in the program and make payments to the Health Benefits Internal Service Fund based on the amounts needed to pay prior and current year claims. This plan provides a medical plan with a \$100 single and a \$200 family deductible for all employees other than the police 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 stop-loss coverage for the last three years. The City utilizes a third party administrator to review all claims which are then paid by the City.

Claims payable is based on the requirements of 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, 2000, are estimated based on past experience in payment of claims at \$709,605.

| | Beginning of Year | Current Year Claims and Changes | | Claims | End of Year |
|------|----------------------|------------------------------------|------------------|-----------------|------------------|
| | <u>Liability</u> | <u>in Estimates</u> | <u>Stop Loss</u> | <u>Payments</u> | <u>Liability</u> |
| 1999 | \$ 576,212 | \$ 3,474,079 | \$ 1,740 | \$ 2,503,505 | \$ 1,548,526 |
| 2000 | 1,548,526 | 3,395,900 | 235,032 | 4,469,853 | 709,605 |

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 2000 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 |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 10 - RISK MANAGEMENT (CONTINUED)

* The combined insurance coverage includes an annual aggregate deductible of \$100,000 and a specific occurrence deductible of \$25,000.

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

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

NOTE 11 - EMPLOYEE BENEFITS

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.

Unpaid compensated absences at year end is reported in the general long-term obligations account group in the amount of \$2,218,532. An accrual of \$676,028 for compensated absences payable is reported within the enterprise funds.

NOTE 12 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

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

The Retirement Board instituted a temporary employer contribution rate rollback for calendar year 2000. The rate rollback was 20% for state and local government divisions and 6% for law enforcement divisions. The 2000 employer contribution rate for local government employer units was 10.84% of covered payroll. For law enforcement, the employer rate was 15.70% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS for the years ended December 31, 2000, 1999 and 1998 were \$878,788, \$953,128 and \$927,333, respectively.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 12 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Police and Firemen's Disability and Pension Fund

The City contributes to the Police and Firemen's Disability and Pension Fund (PFDPF), a cost-sharing multiple employer defined benefit pension plan. PFDPF provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Contribution requirements and benefit provisions are established by the Ohio State Legislature and codified in Chapter 742 of the Ohio Revised Code. The PFDPF issues a publicly available financial report that includes financial statements and required supplementary information for PFDPF. That report may be obtained by writing to PFDPF, 140 East Town Street, Columbus, Ohio 43215-5164.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% and 24.0%, respectively for police officers and firefighters. The City's contributions to PFDPF for the years ending December 31, 2000, 1999, and 1998 were \$723,948, \$1,038,618 and \$997,715, respectively, equal to the required contributions for each year.

NOTE 13 – POST-EMPLOYMENT BENEFITS

A. Public Employees Retirement System

In addition to providing pension benefits through Public Employee Retirement System of Ohio ("System"), the System provides post retirement health care coverage to age and service retirees with ten or more years of qualifying Ohio Service Credit. Health care coverage for disability recipients and primary service recipients is also available. The Ohio revised code provides statutory authority for employee and employer contributions to the System. The employer contribution rate was rolled back for the year 2000. For local government employer units the rate was 10.84% of covered payroll; 4.3% was the portion that was used to fund health care for the year. The law enforcement employer rate was 15.70% and 4.3% was used to fund health care for the year.

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used were \$12,473.6 million and \$1,668.1 million, respectively. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$10,805.5 million. The number of statewide benefit recipients eligible for OPEB at December 31, 2000 was \$401,339.

The Retirement Board enacted a temporary employer contribution rate rollback for calendar year 2000. The decision to rollback rates was based on the December 31, 1998 actuarial study, which indicated that actuarial assets exceeded actuarial liabilities. The temporary rate rollback was 20% for local government divisions and 6% for law enforcement divisions. The Board reallocated employer contributions from 4.2% to 4.3% at the beginning of the year to improve health care financing. The proportion of contributions dedicated to funding OPEB increased during the year for those reasons.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 13 – POST-EMPLOYMENT BENEFITS (CONTINUED)

B. Police and Firemen’s Disability and Pension Fund (PFDPF)

The Police and Firemen’s Disability and Pension Fund provides post-retirement health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of 18 whether or not the child is attending school or under the age of 22 if attending school full-time or on a 2/3 basis. The health care coverage provided by the retirement system is considered an Other Post-employment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care cost paid from the funds of the Police and Firemen’s Disability and Pension Fund shall be included in the employer’s contribution rate. The total police employer contribution rate is 19.5% of covered payroll and the total firefighter employer contribution rate is 24% of covered payroll.

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

Health care funding and accounting is on a pay-as-you-go basis. The Board defined allocation was 7.0% and 7.25% of covered payroll in 1999 and 2000, respectively. The allocation is 7.5% in 2001. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

The number of participants eligible statewide to receive health care benefits as of December 31, 1999 was 12,467 for police and 9,807 for firefighters. The City’s 2000 contribution was approximately \$240,000 to fund the City’s portion of their 2000 OPEB obligation to the retirement system.

PFDPF total health care expenses for the year ending December 31, 1999 were \$95,004,633, which was net of member contributions of \$5,518,098.

NOTE 14 - LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2000, were as follows:

| | <u>Interest Rate %</u> | <u>Balance 12/31/99</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance 12/31/00</u> |
|--------------------------------------|----------------------------|-----------------------------|-----------------|-----------------|-----------------------------|
| GENERAL LONG-TERM OBLIGATIONS | | | | | |
| Special Assessment Bonds: | | | | | |
| 1980A Special Assessments | 8.50 | 40,000 | 0 | 40,000 | 0 |
| 1983B South Main Street CBD | 8.75 | 16,000 | 0 | 4,000 | 12,000 |
| 1987 Industry Avenue | 7.25 | 162,000 | 0 | 18,000 | 144,000 |
| 1992 West Elm and North Street | 5.50 | 105,000 | 0 | 35,000 | 70,000 |
| 1995 Elm/Woodlawn/Pine Street | 5.20 | 220,000 | 0 | 35,000 | 185,000 |
| 1996 Market/Collett/Elmwood | 5.80 | <u>105,000</u> | <u>0</u> | <u>15,000</u> | <u>90,000</u> |
| Total Special Assessment Bonds | | <u>648,000</u> | <u>0</u> | <u>147,000</u> | <u>501,000</u> |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 14 - LONG-TERM OBLIGATIONS (CONTINUED)

| | <u>Interest Rate %</u> | <u>Balance 12/31/99</u> | <u>Increase</u> | <u>Decrease</u> | <u>Balance 12/31/00</u> |
|--|----------------------------|-----------------------------|---------------------|---------------------|-----------------------------|
| <u>Unvoted General Obligation Bonds</u> | | | | | |
| 1999 Various Purpose Refunding Bonds | 4.00-5.80 | | | | |
| Municipal Center Refunding | | 1,130,000 | 0 | 15,000 | 1,115,000 |
| Parking Facility | | 750,000 | 0 | 0 | 750,000 |
| Total Unvoted General Obligation Bonds | | <u>1,880,000</u> | <u>0</u> | <u>15,000</u> | <u>1,865,000</u> |
| <u>Other Long-Term Obligations</u> | | | | | |
| Compensated Absences | | 2,239,155 | 0 | 20,623 | 2,218,532 |
| Intergovernmental Payables | | 446,374 | 0 | 95,573 | 350,801 |
| Judgment Payable | | 110,000 | 0 | 0 | 110,000 |
| Loans Payable | | 172,865 | 0 | 39,293 | 133,572 |
| Capital Leases | | 272,110 | 104,890 | 68,382 | 308,618 |
| Total Other Long-Term Obligations | | <u>3,240,504</u> | <u>104,890</u> | <u>223,871</u> | <u>3,121,523</u> |
| Total General Long-Term Obligations | | <u>5,768,504</u> | <u>104,890</u> | <u>385,871</u> | <u>5,487,523</u> |
| <u>ENTERPRISE FUND OBLIGATIONS</u> | | | | | |
| <u>Revenue Bonds</u> | | | | | |
| 1992 Water Revenue Refunding Bonds | Various | 4,170,000 | 0 | 345,000 | 3,825,000 |
| 1992 Sewer Revenue Refunding Bonds | Various | 4,160,000 | 0 | 235,000 | 3,925,000 |
| Total Enterprise Revenue Bonds | | <u>8,330,000</u> | <u>0</u> | <u>580,000</u> | <u>7,750,000</u> |
| <u>Unvoted General Obligation Bonds</u> | | | | | |
| 1999 Various Purpose Refunding Bonds | 4.00-5.80 | | | | |
| Refuse Bonds | | 500,000 | 0 | 35,000 | 465,000 |
| Unamortized Discount | | (1,890) | 132 | 0 | (1,758) |
| Total Refuse Bonds | | <u>498,110</u> | <u>132</u> | <u>35,000</u> | <u>463,242</u> |
| Water Refunding | | 2,380,000 | 0 | 60,000 | 2,320,000 |
| Unamortized Accounting Loss | | (134,389) | 3,388 | 0 | (131,001) |
| Unamortized Discount | | (33,664) | 849 | 0 | (32,815) |
| Total Water Refunding | | <u>2,211,947</u> | <u>4,237</u> | <u>60,000</u> | <u>2,156,184</u> |
| Sewer Refunding | | 2,665,000 | 0 | 45,000 | 2,620,000 |
| Unamortized Accounting Loss | | (156,436) | 2,642 | 0 | (153,794) |
| Unamortized Discount | | (39,072) | 660 | 0 | (38,412) |
| Total Sewer Refunding | | <u>2,469,492</u> | <u>3,302</u> | <u>45,000</u> | <u>2,427,794</u> |
| Total Unvoted General Obligation Bonds | | <u>5,179,549</u> | <u>7,671</u> | <u>140,000</u> | <u>5,047,220</u> |
| <u>Other Long-Term Obligations</u> | | | | | |
| OWDA Loans | Various | 1,543,943 | 6,877,274 | 220,564 | 8,200,653 |
| Capital Leases | | 793 | 0 | 793 | 0 |
| Total Enterprise Other Long-Term Obligations | | <u>1,544,736</u> | <u>6,877,274</u> | <u>221,357</u> | <u>8,200,653</u> |
| Total Enterprise Fund Obligations | | <u>15,054,285</u> | <u>6,884,945</u> | <u>941,357</u> | <u>20,997,873</u> |
| Total - All Long-Term Obligations | | <u>\$ 20,822,789</u> | <u>\$ 6,989,835</u> | <u>\$ 1,327,228</u> | <u>\$ 26,485,396</u> |

General Obligation Bonds – All general obligation bonds are supported by the full faith and credit of the City. General obligation bonds presented as a liability in the General Long-Term Obligations Account Group will be retired through the Debt Service Fund.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 14 - LONG-TERM OBLIGATIONS (CONTINUED)

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

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.

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:

| <u>Year</u> | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|-------------|--------------|--------------|--------------|
| 2005 | \$ 405,000 | \$ 190,000 | \$ 595,000 |
| 2006 | 435,000 | 210,000 | 645,000 |
| 2007 | 460,000 | 285,000 | 745,000 |
| 2008 | 490,000 | 360,000 | 850,000 |
| 2009 | 450,000 | 380,000 | 830,000 |
| 2010 | 0 | 405,000 | 405,000 |
| 2011 | 0 | 430,000 | 430,000 |
| 2012 | 0 | 455,000 | 455,000 |

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:

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 14 - LONG-TERM OBLIGATIONS (CONTINUED)

| 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 requirements to retire general long-term debt obligations outstanding at December 31, 2000 are as follows:

| | General Obligation | Special Assessments | Loans | Total |
|------------|-----------------------|------------------------|-------------------|---------------------|
| 2001 | \$ 20,000 | \$ 109,000 | \$ 41,200 | \$ 373,834 |
| 2002 | 25,000 | 109,000 | 43,200 | 265,834 |
| 2003 | 25,000 | 74,000 | 49,172 | 223,772 |
| 2004 | 25,000 | 70,000 | 0 | 140,000 |
| 2005 | 180,000 | 70,000 | 0 | 268,000 |
| Thereafter | <u>1,590,000</u> | <u>69,000</u> | <u>0</u> | <u>1,659,000</u> |
| | <u>\$ 1,865,000</u> | <u>\$ 501,000</u> | <u>\$ 133,572</u> | <u>\$ 2,930,440</u> |

Principal requirements to retire the long-term debt obligations outstanding at December 31, 2000 from the enterprise funds are as follows:

| | Revenue Bonds | General Obligation (Gross) | OWDA Loans | Total |
|------------|---------------------|----------------------------------|---------------------|----------------------|
| 2001 | \$ 625,000 | \$ 185,000 | \$ 549,895 | \$ 1,359,895 |
| 2002 | 675,000 | 210,000 | 490,295 | 1,375,295 |
| 2003 | 720,000 | 255,000 | 500,505 | 1,475,505 |
| 2004 | 775,000 | 270,000 | 511,101 | 1,556,101 |
| 2005 | 595,000 | 235,000 | 522,098 | 1,352,098 |
| Thereafter | <u>4,360,000</u> | <u>4,250,000</u> | <u>5,626,759</u> | <u>14,236,759</u> |
| | <u>\$ 7,750,000</u> | <u>\$ 5,405,000</u> | <u>\$ 8,200,653</u> | <u>\$ 21,355,653</u> |

Authorized but Unissued Loan

The City received approval for a loan from the Ohio Water Development Authority in the amount of \$7,413,120 during 1999. The loan will finance the wastewater treatment plant renovations and upgrades as identified by the 1996 water and sewer needs assessment. The loan will be repaid by the Sewer Enterprise Fund. The loan is expected to be incurred in September of 2001.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 15 - INTERFUND TRANSACTIONS

As of December 31, 2000, interfund receivables and payables that resulted from various interfund transactions were as follows:

| | <u>Interfund Receivable/Payable</u> | | <u>Advances to/From Other Funds</u> | | <u>Due to/Due From Other Funds</u> | |
|-----------------------|-------------------------------------|-------------------|-------------------------------------|----------------------|------------------------------------|-------------------|
| | <u>Receivable</u> | <u>Payable</u> | <u>Advances to</u> | <u>Advances From</u> | <u>Due to</u> | <u>Due From</u> |
| General Funds | \$ 380,457 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 |
| Special Revenue Funds | 0 | 488,457 | 0 | 0 | 0 | 322,868 |
| Deb Service Funds | 11,448 | 0 | 0 | 0 | 102,210 | 0 |
| Enterprise Funds | 79,056 | 0 | 212,240 | 212,240 | 181,044 | 0 |
| Internal Service Fund | 0 | 0 | 0 | 0 | 0 | 0 |
| Agency Fund | 17,496 | 0 | 0 | 0 | 39,614 | 0 |
| Total | \$ 488,457 | \$ 488,457 | \$ 212,240 | \$ 212,240 | \$ 322,868 | \$ 322,868 |

NOTE 16 - 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," 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 \$447,250. 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 2000 totaled \$68,382 in governmental funds and \$793 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, 2000.

| <u>Year Ending December 31,</u> | <u>GLTOAG</u> |
|--|-------------------|
| 2001 | \$ 158,923 |
| 2002 | 86,286 |
| 2003 | 48,872 |
| 2004 | 48,872 |
| 2005 | 0 |
| Total Minimum Lease Payments | 342,953 |
| Less: Amount Representing Interest | (34,335) |
| Present Value of Minimum Lease Payments | \$ 308,618 |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 17 - RESERVED RETAINED EARNINGS AND RESTRICTED ASSET ACCOUNTS

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. Retained earnings was reserved as follows:

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|--|--------------|--------------|--------------|
| Revenue bond plant improvement and replacement | \$ 800,000 | \$ 800,000 | \$1,600,000 |
| Revenue bond operations | 1,052,849 | 1,002,721 | 2,055,570 |

The balances of the City's restricted asset accounts are as follows:

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|---|---------------------|---------------------|---------------------|
| <u>Restricted assets held by City for:</u> | | | |
| Customer deposits | \$ 236,007 | \$ 0 | \$ 236,007 |
| Revenue bond plant improvements and replacement | 800,000 | 800,000 | 1,600,000 |
| Revenue bond operations | 1,052,849 | 1,002,721 | 2,055,570 |
| Total restricted assets held by City | <u>\$ 2,088,856</u> | <u>\$ 1,802,721</u> | <u>\$ 3,891,577</u> |

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|---|-------------------|-------------------|--------------------|
| <u>Restricted assets held by Trustee for:</u> | | | |
| Revenue bond current debt service | \$ 30,039 | \$ 20,420 | \$ 50,459 |
| Revenue bond future debt service | 563,844 | 613,484 | 1,177,328 |
| Total restricted assets held by Trustee | <u>\$ 593,883</u> | <u>\$ 633,904</u> | <u>\$1,227,787</u> |

NOTE 18 - OUTSTANDING CONTRACTUAL COMMITMENTS

As of December 31, 2000, the City had contractual purchase commitments as follows:

| Project | <u>Outstanding Balance</u> |
|-----------------------------------|--------------------------------|
| Ottawa River Light Project | \$ 163,000 |
| Ottawa River Planting | 127,645 |
| Southeast Trunk Sewer | 120,667 |
| St. Vactor Improvement | 65,000 |
| Street Resurfacing and Widening | 101,183 |
| Wastewater Treatment Improvements | 2,167,700 |
| Wastewater Treatment Improvements | 315,530 |
| Window machine | 149,960 |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 19 - 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, 2000, for each enterprise fund is as follows:

| <u>Description</u> | <u>Water</u> | <u>Sewer</u> | <u>Refuse</u> | <u>Total</u> |
|------------------------------------|--------------|--------------|---------------|---------------|
| Operating Revenues | \$ 8,736,089 | \$ 7,903,246 | \$ 2,226,262 | \$ 18,865,597 |
| Depreciation Expense | 627,649 | 1,220,942 | 0 | 1,848,591 |
| Operating Income | 1,722,691 | 2,228,435 | (21,161) | 3,929,965 |
| Net Income | 1,718,069 | 1,725,687 | (43,440) | 3,400,316 |
| Current Capital Contributions from | | | | |
| Tap-In Fees | 115,341 | 0 | 0 | 115,341 |
| Current Capital Contributions from | | | | |
| Infrastructure | 92,848 | 388,394 | 0 | 481,242 |
| Fixed Assets: | | | | |
| Additions | 1,310,603 | 8,269,781 | 0 | 9,580,384 |
| Deletions | 213,502 | 77,704 | 0 | 291,206 |
| Net Working Capital | 8,817,567 | 5,339,375 | 224,888 | 14,381,830 |
| Total Assets | 23,584,984 | 33,490,511 | 571,327 | 57,646,822 |
| Bonds and Other Long-Term | | | | |
| Obligations: | | | | |
| Revenue Bonds Payable | 3,825,000 | 3,925,000 | 0 | 7,750,000 |
| OWDA Loans | 0 | 8,200,653 | 0 | 8,200,653 |
| Compensated Absences | 331,957 | 338,209 | 5,862 | 676,028 |
| General Obligation Bonds | 2,156,184 | 2,427,794 | 463,242 | 5,047,220 |
| Advance from Other Funds | 0 | 212,240 | 0 | 212,240 |
| Total Equity | 16,614,336 | 18,056,734 | (225,813) | 34,445,257 |
| Encumbrances Outstanding (Budget | | | | |
| Basis) at December 31, 2000 | 2,853,503 | 1,265,157 | 0 | 4,118,660 |

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2000

NOTE 20 - CONTINGENT LIABILITIES

A. Litigation

As of December 31, 2000, 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, 2000.

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CITY OF LIMA, OHIO

Reports on Federal Awards in Accordance With OMB Circular A-133

December 31, 2000

(With Independent Auditors' Reports Thereon)

CITY OF LIMA, OHIO

Table of Contents

| | Page(s) |
|---|----------------|
| Independent Auditors' Report on Schedule of Expenditures of Federal Awards | 1 |
| Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2000 | 2 |
| Notes to Schedule of Expenditures of Federal Awards | 3 |
| Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on Criteria for Audits of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i> | 4-5 |
| Independent Auditors' Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133 | 6-7 |
| Schedule of Findings and Questioned Costs | 8-12 |

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191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

**Independent Auditors' Report on the
Schedule of Expenditures of Federal Awards**

The Honorable City Mayor
City of Lima, Ohio

and

The Honorable Jim Petro
Auditor of State

We have audited the accompanying schedule of expenditures of federal awards (the Schedule) of the City of Lima, Ohio (the City), for the year ended December 31, 2000. This Schedule is the responsibility of the City's management. Our responsibility is to express an opinion on this Schedule based on our audit.

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

As described in Note 2 to the schedule of expenditures of federal awards, the Schedule was prepared on the basis of cash disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the schedule of expenditures of federal awards referred to above presents fairly, in all material respects, the expenditures of federal awards of the City of Lima, Ohio, as described above, for the year ended December 31, 2000, on the basis of accounting described in Note 2 to the schedule of expenditures of federal awards.

KPMG LLP

December 11, 2002

CITY OF LIMA, OHIO

Schedule of Expenditures of Federal Awards

Year ended December 31, 2000

| <u>Federal Grantor/Program Title</u> | <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 | \$ 3,042,672 |
| HOME Renewal Program | 14.239 | MC-39-0219 | 450,027 |
| HOME Renewal Loan Program | 14.239 | MC-39-0219 | 41,816 |
| HUD Drug Elimination Grant FY96 | 14.193 | N/A | 544 |
| Total U.S. Department of Housing and Urban Development | | | <u>3,535,059</u> |
| U.S. Department of Justice | | | |
| Direct Programs: | | | |
| Weed & Seed Core | 16.595 | WS-Q8-0056 | 151,320 |
| Asset for forfeiture | 16.000 | N/A | 34,007 |
| Family First | 16.000 | N/A | 2,034 |
| Parks not Prisons | 16.523 | JB-013-A049 | 17,333 |
| Violence Against Women | 16.588 | WF-VA38115 | 12,671 |
| Restorative Justice Grant | 16.579 | DG-B01-702 | 9,585 |
| Local Law Enforcement Block Grant | 16.592 | LB-VX-3299 | 169,059 |
| Total Direct Programs | | | <u>396,009</u> |
| Pass through Ohio Dept. of Justice Byrne Grant | 16.540 | DG-BO2-7032 | <u>35,442</u> |
| Total U.S. Department of Justice | | | <u>431,451</u> |
| Total federal assistance | | | \$ <u><u>3,966,510</u></u> |

See accompanying independent auditors' report.

See accompanying notes to schedule of expenditures of federal awards.

CITY OF LIMA, OHIO

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2000

(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. Accordingly, expenditures are recognized when paid (disbursed).

(3) Loan Program

The City had the following loan balances outstanding at December 31, 2000. These loan balances outstanding are also included in the federal expenditures presented in the Schedule.

| | <u>CFDA Program Number</u> | <u>Amount Outstanding</u> |
|---|--------------------------------|-------------------------------|
| Home Renewal Loan Program (Rental Assistance) | 14.239 | 41,816 |



191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

**Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on Criteria for Audits 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 were engaged to audit the general purpose financial statements of the City of Lima, Ohio (the City), as of and for the year ended December 31, 2000, and have issued our report thereon dated December 11, 2002. The scope of our work was not sufficient to enable us to express, and we did not express an opinion on the general purpose financial statements as of and for the year ended December 31, 2000.

Compliance

In connection with our engagement to audit the general purpose financial statements of the City, 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 engagement 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 December 11, 2002. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the general purpose financial statements, other matters may have been identified and reported herein.

Internal Control Over Financial Reporting

In connection with our engagement to audit the general purpose financial statements of the City, we considered the City's internal control over financial reporting in order to determine our auditing procedures and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in 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 00-1 and 00-2.

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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above as item 00-1 to be a material weakness. Additionally, if the scope of our work had been sufficient to enable us to express an opinion on the general purpose financial statements, other matters may have been identified and reported herein.

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

KPMG LLP

December 11, 2002



191 West Nationwide Boulevard
Suite 500
Columbus, OH 43215-2568

Telephone 614 249 2300
Fax 614 249 2348

**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**

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 each of its major federal programs for the year ended December 31, 2000. The City's major federal programs are 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 each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

As described in items 00-3 and 00-4 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding allowable and unallowed activities and allowable costs/cost principles that are applicable to its Community Development Block Grant; and special tests and provisions that are applicable to its HOME Renewal Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2000.

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 certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-3, 00-4, and 00-5.

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 consider all of the reportable conditions described above as items 00-3, 00-4, and 00-5 to be material weaknesses.

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

KPMG LLP

December 11, 2002

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2000

(1) Summary of Auditors' Results:

| | |
|---|---|
| (a) Type of report issued on the general purpose financial statements | Disclaimer |
| (b) Reportable conditions in internal control were disclosed by the audit of the financial statements | Yes |
| Material weaknesses | Yes |
| (c) Noncompliance which is material to the general purpose financial statements | No |
| (d) Reportable conditions in internal control over major programs | Yes |
| Material weaknesses | Yes |
| (e) Type of report issued on compliance for major programs | |
| | Qualified for HOME Renewal Program and Community Development Block Grant |
| (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133 | Yes |
| (g) Major programs | |
| | HOME Renewal Program (HOME) (CFDA #14.239) |
| | Community Development Block Grant (CDBG) (CFDA #14.218) |
| (h) Dollar threshold used to distinguish between Type A and Type B programs | \$300,000 |
| (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133 | No |

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2000

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

Finding 00-1 (repeat of 99-1) -- Understanding of Generally Accepted Accounting Principles

Throughout our audit, we noted that 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 responsibility for its financial reporting process, which includes an understanding of the basic general purpose financial statements and the related notes to these statements. We extended audit procedures to assist management in the area of account analysis to understand and ascertain the propriety of the fluctuations of balances throughout the year.

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.

Finding 00-2 (repeat of 99-2) -- Bank Account Reconciliation

Timely account reconciliations of subsidiary accounting records is a critical component of a system of internal control, as well as of timely and accurate financial reporting. During our audit we noted that cash and investments were not properly reconciled to the bank balances. The District performed a portion of the bank reconciliation monthly; however, the District did not investigate differences, which fluctuated each month, to determine if they were appropriate reconciling items. Failure to timely and properly reconcile these accounts enhances risk that potential error or fraud could go undetected.

Reconciliations between the bank statements and the general ledger should be performed monthly and all reconciling items should be fully investigated and resolved promptly. The Auditor should review the reconciliations and any adjusting journal entries and document approval by initialing the reconciliation.

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 00-3 (repeat of 99-3); CDBG (14.218) – Allowable Costs/Cost Principles

Criteria:

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, establishes principles and standards for determining costs for federal awards carried out through grants, cost reimbursement contracts, and other agreements with state and local governments. To be allowable under federal awards, costs must meet certain general criteria. Those criteria require, among other things, that the expenditure be adequately documented. If an employee works solely on one federal program and 100% of their salary or wages are charged to the program, the City must obtain a certification from the employee that 100% of their time is spent on the single federal program. This certification must be kept on file and is required to be obtained at least every six months.

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2000

Condition:

Employees whose salaries were fully funded by the CDBG program did not obtain semiannual certifications to support their payroll costs. Total payroll expenditures charged to the CDBG program for the year ended December 31, 2000 was \$586,237. The City did begin obtaining semiannual certifications in 2001.

Questioned Costs:

Although the City did not require its employees to provide certification of their time, the City does have adequate controls in place to monitor the amount of payroll charged to CDBG. Additionally, the Director of Community Planning is fully aware of which employees spends 100% of their time on CDBG programs. Consequently, it appears that payroll costs have been properly charged to CDBG and therefore, the amount of questioned costs is \$0.

Effect:

Lack of required semiannual certifications may result in the City's expending grant funds for unallowed items.

Cause:

The City was not aware of the fact that they must obtain proper certification from employees who spend 100% of their time on a single Federal award or cost objective. As the City is now aware of the requirement, quarterly certifications have been obtained beginning in 2001.

Recommendation:

We recommend the City continue to obtain semi-annual certifications of federal employee time.

Finding 00-4 (repeat of 99-4); HOME (14.239) –Special Tests and Provisions

Criteria:

During the period of affordability (i.e., the period for which the non-Federal entity must maintain subsidized housing) for HOME assisted rental housing, the participating jurisdiction must perform on-site inspections to determine compliance with property standards and verify the information submitted by the owners no less than every three years for projects containing 1 to 4 units. The participating jurisdiction must perform on-site inspections of rental housing occupied by tenants receiving HOME-assisted tenant-based rental assistance to determine compliance with housing quality standards (24 CFR sections 92.251, 92.252, and 92.504(b)).

Condition:

The City only performed inspection on 1 of 7 required rental properties in 2000. Additionally, the City did not retain documentation of this inspection.

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2000

Questioned Costs:

None.

Effect:

Not performing required inspections may result in the City expending grant funds for unallowed items.

Cause:

The City sent out letters informing residents of the required inspections; however, the City has not received responses from these parties nor permission to enter into the premise.

Recommendation:

We recommend the City continue to follow up the required parties in order to complete the inspection requirement.

City's Response:

The City will follow up with required parties to complete the inspection requirement as noted in the grant provisions.

Finding 00-5 (repeat of 99-5 and 98-1); General Administration

Criteria:

The Federal Register § 300 states that it is the auditees responsibility to prepare the Schedule of Expenditures of Federal Awards (Schedule) and the Schedule should be a complete listing of federal awards, including the related expenditures for the year and the CFDA number.

Condition:

The City has no monitoring system to ensure that all Federal Awards are properly identified and reported upon in the Schedule.

Questioned Costs:

None.

Effect:

The lack of an identification and monitoring system may result in incomplete financial information being reported on the Schedule, thus resulting in the potential for fines and or loss of future funding.

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2000

Cause:

The City does not completely identify each federal grant separately in the general ledger, and does not investigate new grants programs to determine if the funds are federal or not. The City has begun to better identify federal grant funds separately in its general ledger, but needs to continue the process to aid in the preparation of the Schedule.

Recommendation:

We recommend the City continue to implement and enhance its procedures to ensure a complete and accurate Schedule is prepared annually.



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.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
JANUARY 9, 2003**