

**City of Lima
Allen County**

**General Purpose Financial Statements
For the Year Ended December 31, 2001**



**Auditor of State
Betty Montgomery**

City Council
City of Lima
50 Town Square
Lima, Ohio 45801

We have reviewed the Independent Auditor's Report of the City of Lima, Allen County, prepared by Rea & Associates, Inc., for the audit period January 1, 2001 through December 31, 2001. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

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

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

BETTY MONTGOMERY
Auditor of State

November 7, 2003

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

ACCOUNTANTS AND BUSINESS CONSULTANTS

June 9, 2003

Mayor and Members of Council
City of Lima
Lima, Ohio

Independent Auditor's Opinion

We have audited the accompanying general-purpose financial statements of the City of Lima, Ohio (the City), as of and for the year ended December 31, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City of Lima's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. Other auditors, whose report was dated December 11, 2002, disclaimed an opinion on the general purpose financial statements for the year ended December 31, 2000 due to a scope limitation.

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

The City received a Disclaimer of Opinion on the general-purpose financial statements for the year ended December 31, 2000. The affects of the December 31, 2000 balance sheets on the Combined Statements of Revenues, Expenditures, and Changes in Fund Balances, the Combined Statement of Revenues, Expenses, and Changes in Fund Equity and Combined Statement of Cash Flows is not known.

Because of the matter 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 Combined Statements of Revenues, Expenditures, and Changes in Fund Balances, the Combined Statement of Revenues, Expenditures, and Changes in Fund Balance—Budget and Actual, the Combined Statement of Revenues, Expenses, and Changes in Fund Equity and Combined Statement of Cash Flows for the year ended December 31, 2001.

In our opinion, the balance sheet of the City as of December 31, 2001, is presented fairly in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards," we have also issued our report dated June 9, 2003 on our consideration of the City of Lima's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Rea & Associates, Inc.

CITY OF LIMA - ALLEN COUNTY

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2001

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Assets				
Current Assets:				
Equity in Pooled Cash and Cash Equivalents	\$ 1,801,089	\$ 1,905,690	\$ 0	\$ 795,579
Cash and Cash Equivalents in Segregated Accounts	0	0	71,257	0
Cash and Cash Equivalents with Fiscal and Escrow Agents	0	0	34,088	0
Receivables:				
Taxes	4,167,588	19,575	0	0
Accounts	202,228	1,289	0	0
Intergovernmental	1,441,917	3,466,121	0	35,572
Special Assessments	0	640,690	1,655,792	0
Accrued Interest	20,041	0	308	0
Interfund Receivable	423,117	0	113,458	0
Materials and Supplies Inventory	0	57,471	0	0
Due From Other Funds	0	0	148,318	0
Notes Receivable	0	2,178,968	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>8,055,980</u>	<u>8,269,804</u>	<u>2,023,221</u>	<u>831,151</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>\$ 8,055,980</u>	<u>\$ 8,269,804</u>	<u>\$ 2,023,221</u>	<u>\$ 831,151</u>

The accompanying notes are an integral part of the 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	
\$ 17,410,216	\$ 1,018,781	\$ 261,787	\$ 0	\$ 0	\$ 23,193,142
616,182	0	406,231	0	0	1,093,670
0	0	0	0	0	34,088
0	0	0	0	0	4,187,163
3,009,518	8,208	2,259,410	0	0	5,480,653
0	0	0	0	0	4,943,610
0	0	0	0	0	2,296,482
550	0	120	0	0	21,019
0	0	0	0	0	536,575
98,636	0	0	0	0	156,107
137,243	0	30,373	0	0	315,934
0	0	0	0	0	2,178,968
271,423	0	0	0	0	271,423
3,678,035	0	0	0	0	3,678,035
1,279,529	0	0	0	0	1,279,529
132,240	0	0	0	0	132,240
<u>39,705,017</u>	<u>0</u>	<u>0</u>	<u>24,923,870</u>	<u>0</u>	<u>64,628,887</u>
<u>66,338,589</u>	<u>1,026,989</u>	<u>2,957,921</u>	<u>24,923,870</u>	<u>0</u>	<u>114,427,525</u>
0	0	0	0	367,429	367,429
0	0	0	0	4,943,314	4,943,314
0	0	0	0	192,066	192,066
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,502,809</u>	<u>5,502,809</u>
<u>\$ 66,338,589</u>	<u>\$ 1,026,989</u>	<u>\$ 2,957,921</u>	<u>\$ 24,923,870</u>	<u>\$ 5,502,809</u>	<u>\$ 119,930,334</u>

(continued)

CITY OF LIMA - ALLEN COUNTY

Combined Balance Sheet
All Fund Types and Account Groups

December 31, 2001

	Governmental Fund Type			
	General	Special Revenue	Debt Service	Capital Projects
Liabilities and Fund Equity				
Liabilities				
Accounts Payable	\$ 462,178	\$ 67,184	\$ 0	\$ 4,589
Contracts Payable	119,152	191,077	0	5,500
Interfund Payable	0	423,117	0	113,458
Accrued Wages	372,845	25,435	0	1,377
Compensated Absences Payable	32,849	0	0	0
Retainage Payable	0	0	0	0
Intergovernmental Payable	147,998	21,456	0	1,154
Deferred Revenue	3,873,986	3,834,919	1,655,792	5,536
Undistributed Monies	0	0	0	0
Deposits Held and Due to Others	0	0	0	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	0	0	315,934
Payables from Restricted Assets:				
Revenue Bonds Payable	0	0	0	0
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
Bond Anticipation Notes	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>5,009,008</u>	<u>4,563,188</u>	<u>1,655,792</u>	<u>447,548</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	857,192	348,730	0	132,032
Reserved for Notes Receivable	0	2,178,968	0	0
Reserved for Inventory	0	57,471	0	0
Unreserved	2,189,780	1,121,447	367,429	251,571
Total Fund Equity (Deficit) and Other Credits	<u>3,046,972</u>	<u>3,706,616</u>	<u>367,429</u>	<u>383,603</u>
Total Liabilities, Fund Equity and Other Credit	<u>\$ 8,055,980</u>	<u>\$ 8,269,804</u>	<u>\$ 2,023,221</u>	<u>\$ 831,151</u>

The accompanying notes are an integral part of the 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	
\$ 365,291	\$ 112,173	\$ 9,138	\$ 0	\$ 0	\$ 1,020,553
1,404,578	0	0	0	0	1,720,307
0	0	0	0	0	536,575
92,353	0	0	0	0	492,010
658,060	0	0	0	2,150,673	2,841,582
237,197	0	0	0	0	237,197
109,952	0	20,415	0	344,099	645,074
0	0	0	0	0	9,370,233
0	0	2,686,994	0	0	2,686,994
0	0	100,809	0	0	100,809
65,434	0	0	0	0	65,434
0	371,663	0	0	0	371,663
0	0	0	0	92,372	92,372
0	0	0	0	0	315,934
675,000	0	0	0	0	675,000
239,793	0	0	0	0	239,793
36,393	0	0	0	0	36,393
0	0	0	0	110,000	110,000
132,240	0	0	0	0	132,240
3,680,000	0	0	0	400,000	4,080,000
0	0	0	0	166,665	166,665
8,237,995	0	0	0	0	8,237,995
4,870,409	0	0	0	1,845,000	6,715,409
6,450,000	0	0	0	0	6,450,000
0	0	0	0	394,000	394,000
<u>27,254,695</u>	<u>483,836</u>	<u>2,817,356</u>	<u>0</u>	<u>5,502,809</u>	<u>47,734,232</u>
0	0	0	24,923,870	0	24,923,870
11,242,038	0	0	0	0	11,242,038
1,600,000	0	0	0	0	1,600,000
1,838,242	0	0	0	0	1,838,242
24,403,614	543,153	0	0	0	24,946,767
0	0	0	0	0	1,337,954
0	0	0	0	0	2,178,968
0	0	0	0	0	57,471
0	0	140,565	0	0	4,070,792
<u>39,083,894</u>	<u>543,153</u>	<u>140,565</u>	<u>24,923,870</u>	<u>0</u>	<u>72,196,102</u>
<u>\$ 66,338,589</u>	<u>\$ 1,026,989</u>	<u>\$ 2,957,921</u>	<u>\$ 24,923,870</u>	<u>\$ 5,502,809</u>	<u>\$ 119,930,334</u>

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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, 2001

	Governmental Fund Types				Fiduciary	Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Revenues:						
Property Taxes	\$ 1,124,877	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,124,877
Municipal Income Taxes	15,354,982	0	0	0	0	15,354,982
Other Local Taxes	0	75,527	0	0	0	75,527
Intergovernmental	3,905,365	3,734,086	0	1,525,738	0	9,165,189
Charges for Services	1,574,535	353,890	0	0	0	1,928,425
Fees, Licenses and Permits	812,804	0	0	0	0	812,804
Fines and Forfeitures	1,129,405	150,248	0	351,388	0	1,631,041
Special Assessments	0	0	224,017	0	0	224,017
Investment Income	1,391,240	93,432	7,985	0	0	1,492,657
Miscellaneous	31,224	18,429	0	21,875	804	72,332
Total Revenues	25,324,432	4,425,612	232,002	1,899,001	804	31,881,851
Expenditures:						
Current:						
Security of Persons and Property	12,558,192	748,490	0	0	0	13,306,682
Leisure Time Activities	935,816	65,706	0	0	0	1,001,522
Community Environment	788,241	1,493,540	0	0	0	2,281,781
Transportation	1,829,347	1,105,901	0	0	0	2,935,248
General Government	7,208,816	59,142	0	0	2,355	7,270,313
Capital Outlay	874,160	279,103	0	1,852,292	0	3,005,555
Debt Service:						
Principal Retirement	183,153	0	309,934	0	0	493,087
Interest and Fiscal Charges	22,433	0	176,357	0	0	198,790
Total Expenditures	24,400,158	3,751,882	486,291	1,852,292	2,355	30,492,978
Excess of Revenues Over (Under) Expenditures	924,274	673,730	(254,289)	46,709	(1,551)	1,388,873
Other Financing Sources (Uses):						
Proceeds of Bonds	400,000	0	0	200,458	0	600,458
Proceeds from Disposition of Fixed Assets	14,056	0	0	0	0	14,056
Operating Transfers - In	600	119,442	247,122	0	0	367,164
Operating Transfers - Out	(214,574)	0	0	(112,590)	0	(327,164)
Total Other Financing Sources (Uses)	200,082	119,442	247,122	87,868	0	654,514
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Sources (Uses)	1,124,356	793,172	(7,167)	134,577	(1,551)	2,043,387
Fund Balances at Beginning Of Year	1,922,616	2,913,444	374,596	249,026	142,116	5,601,798
Fund Balances at End of Year	\$ 3,046,972	\$ 3,706,616	\$ 367,429	\$ 383,603	\$ 140,565	\$ 7,645,185

The accompanying notes are an integral part of the financial statements.

CITY OF LIMA - ALLEN COUNTY

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

For the Year Ended December 31, 2001

	General Fund			Special Revenue Funds		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$ 1,091,700	\$ 1,124,877	\$ 33,177	\$ 0	\$ 0	\$ 0
Municipal Income Tax	14,420,000	14,101,491	(318,509)	0	0	0
Other Local Taxes	0	0	0	82,000	72,991	(9,009)
Intergovernmental	4,578,246	3,769,828	(808,418)	6,202,500	3,876,641	(2,325,859)
Charges for Services	1,556,100	1,582,679	26,579	350,000	358,926	8,926
Fees, Licenses and Permits	726,250	671,530	(54,720)	0	0	0
Revolving Loan Payments	0	0	0	0	482,179	482,179
Fines and Forfeitures	1,276,400	1,205,976	(70,424)	93,000	150,925	57,925
Special Assessments	0	0	0	0	0	0
Investment Income	1,000,000	1,171,606	171,606	0	104,010	104,010
Miscellaneous	41,500	31,995	(9,505)	0	48,489	48,489
Total Revenues	24,690,196	23,659,982	(1,030,214)	6,727,500	5,094,161	(1,633,339)
Expenditures:						
Current:						
Security of Persons and Property	12,862,586	12,668,943	193,643	1,175,570	814,404	361,166
Leisure Time Activities	1,001,139	950,861	50,278	81,779	65,673	16,106
Community Environment	867,833	781,099	86,734	3,274,225	2,836,417	437,808
Transportation	2,268,294	2,187,437	80,857	1,292,282	1,249,671	42,611
General Government	7,761,938	7,252,599	509,339	86,000	59,142	26,858
Capital Outlay	1,622,423	1,329,446	292,977	390,529	125,483	265,046
Debt Service:						
Principal Retirement	203,153	183,153	20,000	0	0	0
Interest	122,748	22,433	100,315	0	0	0
Total Expenditures	26,710,114	25,375,971	1,334,143	6,300,385	5,150,790	1,149,595
Excess of Revenue Over (Under) Expenditures	(2,019,918)	(1,715,989)	303,929	427,115	(56,629)	(483,744)
Other Financing Sources (Uses):						
Proceeds of Bonds	400,000	400,000	0	0	0	0
Proceeds from Disposal of Fixed Assets	7,500	14,056	6,556	0	0	0
Operating Transfers In	0	600	600	130,000	119,442	(10,558)
Operating Transfers Out	(435,000)	(214,574)	220,426	0	0	0
Other Financing Sources (Uses)	(27,500)	200,082	227,582	130,000	119,442	(10,558)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(2,047,418)	(1,515,907)	531,511	557,115	62,813	(494,302)
Fund Balances at Beginning of Year	1,608,243	1,608,243	0	524,061	524,061	0
Prior Year's Encumbrances Carried Over	955,662	955,662	0	344,133	344,133	0
Fund Balances at End of Year	\$ 516,487	\$ 1,047,998	\$ 531,511	\$ 1,425,309	\$ 931,007	\$ (494,302)

The accompanying notes are an integral part of the financial statements.

Debt Service Fund			Capital Projects Funds		
Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	1,495,702	1,495,702	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	295,000	346,291	51,291
247,948	224,017	(23,931)	0	0	0
0	0	0	0	0	0
0	0	0	75,000	21,875	(53,125)
<u>247,948</u>	<u>224,017</u>	<u>(23,931)</u>	<u>1,865,702</u>	<u>1,863,868</u>	<u>(1,834)</u>
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	2,210,064	2,013,811	196,253
857,861	324,934	532,927	0	0	0
625,478	146,294	479,184	0	0	0
<u>1,483,339</u>	<u>471,228</u>	<u>1,012,111</u>	<u>2,210,064</u>	<u>2,013,811</u>	<u>196,253</u>
		0		0	
<u>(1,235,391)</u>	<u>(247,211)</u>	<u>988,180</u>	<u>(344,362)</u>	<u>(149,943)</u>	<u>194,419</u>
0	0	0	145,000	200,458	55,458
0	0	0	0	0	0
1,235,391	247,122	(988,269)	0	0	0
0	0	0	0	(112,590)	(112,590)
<u>1,235,391</u>	<u>247,122</u>	<u>(988,269)</u>	<u>145,000</u>	<u>87,868</u>	<u>(57,132)</u>
0	(89)	(89)	(199,362)	(62,075)	137,287
89	89	0	573,286	573,286	0
0	0	0	126,481	126,481	0
<u>\$ 89</u>	<u>\$ 0</u>	<u>\$ (89)</u>	<u>\$ 500,405</u>	<u>\$ 637,692</u>	<u>\$ 137,287</u>

(continued)

CITY OF LIMA - ALLEN COUNTY

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

For the Year Ended December 31, 2001

	Expendable Trust Funds			Totals (Memorandum Only)		
	Revised Budget	Actual	Variance Favorable (Unfavorable)	Revised Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Property Taxes	\$ 0	\$ 0	\$ 0	\$ 1,091,700	\$ 1,124,877	\$ 33,177
Municipal Income Tax	0	0	0	14,420,000	14,101,491	(318,509)
Other Local Taxes	0	0	0	82,000	72,991	(9,009)
Intergovernmental	0	0	0	12,276,448	9,142,171	(3,134,277)
Charges for Services	0	0	0	1,906,100	1,941,605	35,505
Fees, Licenses and Permits	0	0	0	726,250	671,530	(54,720)
Revolving Loan Payments	0	0	0	0	482,179	482,179
Fines and Forfeitures	0	0	0	1,664,400	1,703,192	38,792
Special Assessments	0	0	0	247,948	224,017	(23,931)
Investment Income	0	0	0	1,000,000	1,275,616	275,616
Miscellaneous	15,000	804	(14,196)	131,500	103,163	(28,337)
Total Revenues	<u>15,000</u>	<u>804</u>	<u>(14,196)</u>	<u>33,546,346</u>	<u>30,842,832</u>	<u>(2,703,514)</u>
Expenditures:						
Current:						
Security of Persons and Property	0	0	0	14,038,156	13,483,347	554,809
Leisure Time Activities	0	0	0	1,082,918	1,016,534	66,384
Community Environment	0	0	0	4,142,058	3,617,516	524,542
Transportation	0	0	0	3,560,576	3,437,108	123,468
General Government	15,000	2,864	12,136	7,862,938	7,314,605	548,333
Capital Outlay	0	0	0	4,223,016	3,468,740	754,276
Debt Service:						
Principal Retirement	0	0	0	1,061,014	508,087	552,927
Interest	0	0	0	748,226	168,727	579,499
Total Expenditures	<u>15,000</u>	<u>2,864</u>	<u>12,136</u>	<u>36,718,902</u>	<u>33,014,664</u>	<u>3,704,238</u>
Excess of Revenue Over (Under) Expenditures	<u>0</u>	<u>(2,060)</u>	<u>(2,060)</u>	<u>(3,172,556)</u>	<u>(2,171,832)</u>	<u>1,000,724</u>
Other Financing Sources (Uses):						
Proceeds of Bonds	0	0	0	545,000	600,458	55,458
Proceeds from Disposal of Fixed Assets	0	0	0	7,500	14,056	6,556
Operating Transfers In	0	0	0	1,365,391	367,164	(998,227)
Operating Transfers Out	0	0	0	(435,000)	(327,164)	107,836
Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,482,891</u>	<u>654,514</u>	<u>(828,377)</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>0</u>	<u>(2,060)</u>	<u>(2,060)</u>	<u>(1,689,665)</u>	<u>(1,517,318)</u>	<u>172,347</u>
Fund Balances at Beginning of Year	142,481	142,481	0	2,848,160	2,848,160	0
Prior Year's Encumbrances Carried Over	0	0	0	1,426,276	1,426,276	0
Fund Balances at End of Year	<u>\$ 142,481</u>	<u>\$ 140,421</u>	<u>\$ (2,060)</u>	<u>\$ 2,584,771</u>	<u>\$ 2,757,118</u>	<u>\$ 172,347</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LIMA - ALLEN COUNTY

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

For the Year Ended December 31, 2001

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Totals (Memorandum Only)</u>
Operating Revenue:			
Charges for Services	\$ 17,251,650	\$ 4,693,346	\$ 21,944,996
Recycled Sales	139,400	0	139,400
Other Operating Revenues	538,299	272,306	810,605
Total Operating Revenues	<u>17,929,349</u>	<u>4,965,652</u>	<u>22,895,001</u>
Operating Expenses:			
Salaries	3,813,755	0	3,813,755
Fringe Benefits	1,518,121	0	1,518,121
Claims Expense	0	3,411,486	3,411,486
Other Services and Charges	5,445,049	781,902	6,226,951
Depreciation	2,456,139	0	2,456,139
Total Operating Expenses	<u>13,233,064</u>	<u>4,193,388</u>	<u>17,426,452</u>
Operating Income	4,696,285	772,264	5,468,549
Non-Operating Revenues (Expenses):			
Gain on Disposal of Fixed Assets	125	0	125
Tap-in Fees	70,729	0	70,729
Donated Fixed Assets	60,254	0	60,254
Capital Grants	182,463	0	182,463
Investment Income	707,390	0	707,390
Interest and Fiscal Charges	(1,038,609)	0	(1,038,609)
Total Non-Operating Revenues (Expenses)	<u>(17,648)</u>	<u>0</u>	<u>(17,648)</u>
Income Before Operating Transfers	4,678,637	772,264	5,450,901
Operating Transfer - Out	<u>(40,000)</u>	<u>0</u>	<u>(40,000)</u>
Net Income	4,638,637	772,264	5,410,901
Depreciation on Fixed Assets Acquired by Contributed Capital	306,711	0	306,711
Retained Earnings at Beginning of Year	<u>22,896,508</u>	<u>(229,111)</u>	<u>22,667,397</u>
Retained Earnings at End of Year	27,841,856	543,153	28,385,009
Contributed Capital at Beginning of Year	11,548,749	0	11,548,749
Depreciation on Fixed Assets acquired by Contributed Capital	<u>(306,711)</u>	<u>0</u>	<u>(306,711)</u>
Contributed Capital at End of Year	<u>11,242,038</u>	<u>0</u>	<u>11,242,038</u>
Total Fund Equity at End of Year	<u>\$ 39,083,894</u>	<u>\$ 543,153</u>	<u>\$ 39,627,047</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LIMA - ALLEN COUNTY

Combined Statement of Cash Flows
All Proprietary Fund Types

For the Year Ended December 31, 2001

	<u>Enterprise</u>	<u>Internal Service</u>	<u>Total (Memorandum Only)</u>
Cash Flows from Operating Activities			
Cash Received from Customers	\$ 16,754,810	\$ 0	\$ 16,754,810
Cash Received from Quasi-External Operating Transactions with Other Funds	0	4,360,349	4,360,349
Cash Payments for Personal Services	(3,454,066)	0	(3,454,066)
Cash Payments for Fringe Benefits	(1,536,089)	0	(1,536,089)
Cash Payments for Claims	0	(3,749,428)	(3,749,428)
Cash Payments for Other Services and Charges	(4,148,082)	(425,819)	(4,573,901)
Other Operating Receipts	<u>538,299</u>	<u>272,306</u>	<u>810,605</u>
<i>Net Cash Provided by Operating Activities</i>	8,154,872	457,408	8,612,280
Cash Flows from Noncapital Financing Activities:			
Operating Transfers	<u>(40,000)</u>	<u>0</u>	<u>(40,000)</u>
<i>Net Cash Used for Noncapital Financing Activities</i>	(40,000)	0	(40,000)
Cash Flows from Capital and Related Financing Activities:			
Acquisition and Construction of Capital Assets	(6,079,554)	0	(6,079,554)
Cash Received from Tap-In Fees	70,729	0	70,729
Principal Paid on Revenue Bonds	(625,000)	0	(625,000)
Principal Paid on General Obligation Bonds	(176,811)	0	(176,811)
Principal Paid on OWDA Debt	(347,927)	0	(347,927)
Proceeds from OWDA Debt	385,269	0	385,269
Proceeds from Bond Anticipation Notes	3,680,000	0	3,680,000
Interest Paid on Debt Obligation	<u>(998,458)</u>	<u>0</u>	<u>(998,458)</u>
<i>Net Cash Used for Capital and Related Financing Activities</i>	(4,091,752)	0	(4,091,752)
Cash Flows from Investing Activities:			
Gain on Sale of Assets	125	0	125
Proceeds from Sale of Investments	122,976	0	122,976
Cash Received from Interest	<u>707,848</u>	<u>0</u>	<u>707,848</u>
<i>Net Cash Provided by Investing Activities</i>	830,949	0	830,949
Net Increase in Cash and Cash Equivalents	4,854,069	457,408	5,311,477
Cash and Cash Equivalents at Beginning of Year	<u>18,129,893</u>	<u>561,373</u>	<u>18,691,266</u>
Cash and Cash Equivalents at End of Year	<u>\$ 22,983,962</u>	<u>\$ 1,018,781</u>	<u>\$ 24,002,743</u>
Equity in Pooled Cash and Cash Equivalents	\$ 17,410,216		

CITY OF LIMA - ALLEN COUNTY

Combined Statement of Cash Flows
All Proprietary Fund Types

For the Year Ended December 31,2001

	Enterprise	Internal Service	Total (Memorandum Only)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income	\$ 4,696,285	\$ 772,264	\$ 5,468,549
Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	2,456,139	0	2,456,139
Changes in Assets and Liabilities:			
Increase in Accounts Receivable	(351,204)	(8,208)	(359,412)
Decrease in Interfund Receivable	79,056	0	79,056
Decrease in Material and Supplies Inventory	6,915	0	6,915
Decrease in Prepaid Items	46,313	0	46,313
Decrease in Due from Other Funds	43,920	0	43,920
(Decrease) Increase in Accounts Payable	(436,738)	79,160	(357,578)
Increase in Contracts Payable	1,404,578	0	1,404,578
Increase in Accrued Wages	14,742	0	14,742
Decrease in Compensated Absences	(17,968)	0	(17,968)
Increase in Retainage Payable	237,197	0	237,197
Decrease in Intergovernmental Payable	(28,149)	0	(28,149)
Decrease in Claims Payable	0	(337,942)	(337,942)
Decrease in Undistributed Monies	0	(47,866)	(47,866)
Increase in Refundable Deposits	3,786	0	3,786
<i>Net Cash Provided by Operating Activities</i>	<u>\$ 8,154,872</u>	<u>\$ 457,408</u>	<u>\$ 8,612,280</u>

The accompanying notes are an integral part of the financial statements.

CITY OF LIMA - ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

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.

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,

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2001

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:

Expendable Trust and Agency Funds. 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied. (See Note 8.) Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be realized.

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available: local government grants, gasoline tax, motor vehicle tax, homestead and rollback taxes, estate taxes, investment earnings, and charges for current services.

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, 2001, and delinquent property taxes, whose availability is indeterminable and which are intended to finance 2002 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Tax Budget:

Prior to July 15, the City Auditor submits to the City Council a proposed operating budget for the year commencing the following January 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing or increased tax rates. By no later than July 20, the Council-adopted budget is filed with the Allen County Budget Commission for rate determination.

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 2001.

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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2001.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2001 amounted to \$1,391,240, which includes \$521,785 assigned from other City funds.

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

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, 2001, the street repair and recreation activity special revenue funds and the water and sewer enterprise funds maintained inventories.

F. Notes Receivable

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

G. 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.

H. 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.

I. 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, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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 2001, the City capitalized interest in the amount of \$220,369.

K. 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, 2001

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.

L. 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.

M. 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.

N. 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.

O. 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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. Use of Estimates

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

R. 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

A. Compliance

The following account had expenditures (including encumbrances) in excess of appropriations, at the legal level of appropriation for the year ended December 31, 2001:

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 3 - COMPLIANCE (CONTINUED)

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund:			
Chip-Housing Improvement Fund			
Total Expenses	\$ 632,000	\$ 670,092	\$ (38,092)

The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2001.

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Fund			
Street Repair Fund	\$ 1,119,794	\$ 1,525,261	\$ (405,287)
CDBG Block Grant	2,514,244	2,660,999	(146,755)
2000-WS-QX-0179 Core	21,500	80,700	(59,200)
1999-JB-013-A049 JAIBG	30,000	40,000	(10,000)
2001-WS-QX-0157 Weed/Seed	0	175,000	(175,000)
Enterprise Fund			
Refuse Revenue Fund	2,285,680	2,290,111	(4,431)
Internal Service Funds			
Public Works Gasoline	189,800	192,000	(2,200)

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 and 2000-WS-QX-0170 W&S FY00 Core and 2001-WS-QX-0157 Weed/Seed 2 special revenue funds had a deficit cash balance on a budgetary basis at year end in the amount of \$369,727, \$42,821 and \$10,569, respectively. 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, 2001

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, 2001

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>Expendable Trust</u>
GAAP Basis	\$ 1,124,356	\$ 793,172	\$ (7,167)	\$ 134,577	\$ (1,551)
Adjustments for:					
Revenue Accruals	(1,664,450)	668,549	(7,985)	(35,133)	0
Expenditure Accruals	(57,133)	(852,679)	15,063	(29,487)	(509)
Encumbrances Outstanding at Year End	<u>(918,680)</u>	<u>(546,229)</u>	<u>0</u>	<u>(132,032)</u>	<u>0</u>
Budget Basis	<u>\$ (1,515,907)</u>	<u>\$ 62,813</u>	<u>\$ (89)</u>	<u>\$ (62,075)</u>	<u>\$ (2,060)</u>

NOTE 5 – CHANGE IN ACCOUNTING PRINCIPLES

For 2001, the City has implemented GASB Statement No. 33, “Accounting and Financial Reporting for Nonexchange Transactions,” and GASB Statement No. 36, “Reporting for Certain Shared Nonexchange Revenues.” The statements established accounting and reporting guidelines for governments’ decisions about when to report the results of nonexchange transactions involving cash and other financial and capital resources. The implementation of GASB Statement No. 33 and 36 did not have a material effect on fund balance/retained earnings as it was previously reported as of December 31, 2000.

NOTE 6 - DEPOSITS AND INVESTMENTS

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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.

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

Interim monies may be 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).

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

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

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

At year end, the carrying amount of the City's deposits was \$9,586,008. The bank balance was \$9,865,513. Of the bank balance, \$390,803 is collateralized by federal depository insurance and \$9,474,710 by collateral held by third party trustees in accordance with the Ohio Revised Code in collateral pools securing all public funds on deposit with specific depository institutions, which amount is considered uncollateralized as defined by the Government Accounting Standards Board.

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, 2001

NOTE 6 - DEPOSITS AND INVESTMENTS (CONTINUED)

Securities	Category			Carrying Value	Fair Value
	1	2	3		
Repurchase Agreements			\$ 2,588,426	\$ 2,588,426	\$ 2,588,426
Federal Home Loan Mortgage Corporation		\$1,463,459		1,463,459	1,431,040
Federal Farm Credit Bank Construction Bonds		993,720		993,720	1,003,750
Federal Home Loan Banks		4,001,540		4,001,540	4,089,060
U.S. Treasury Notes			<u>3,011,562</u>	<u>3,011,562</u>	<u>3,066,870</u>
	<u>\$ 0</u>	<u>\$ 6,458,719</u>	<u>\$ 5,599,988</u>	<u>\$ 12,058,707</u>	12,179,146
Bank One Trust Money Market Deposit Account					1,102,561
STAR Ohio					<u>6,410,749</u>
Grand Total					<u>\$ 19,692,456</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	\$ 29,278,464	\$ 0
Investments:		
Repurchase Agreements	(2,588,426)	2,588,426
Federal Home Loan Mortgage Corporation		
Mortgage Participation Certificates	(440,910)	440,910
Federal Farm Credit Bank Construction Bonds	(2,024,530)	2,024,530
Federal National Mortgage Association		
Medium Term Notes	(4,058,410)	4,058,410
U.S. Treasury Notes	(3,066,870)	3,066,870
Bank One Trust Money Market Deposit Account	(1,102,561)	1,102,561
STAR Ohio	<u>(6,410,749)</u>	<u>6,410,749</u>
GASB Statement No. 3	<u>\$ 9,586,008</u>	<u>\$ 19,692,456</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 7 - INCOME TAX

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

NOTE 8 - 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 2001 represent the collection of 2000 taxes. For 2001, real property taxes were levied after October 1, 2001, on the assessed values as of January 1, 2001, the lien date. These taxes will be collected in and are intended to finance 2002 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, 2001, on the assessed values as of December 31, 2000, 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 2001 (other than public utility property) represent the collection of 2001 taxes. For 2001, tangible personal property taxes were levied after October 1, 2000, on the true value as of December 31, 2000, 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 2001 operations.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 8 – PROPERTY TAXES (CONTINUED)

The full tax rate for all City operations for the year ended December 31, 2001, 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	<u>28,671,320</u>
Total	<u>\$ 351,281,091</u>

NOTE 9 - RECEIVABLES

Receivables at December 31, 2001, 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	\$ 1,387,688
Sewer	1,253,446
Refuse	<u>368,384</u>
Total	<u>\$ 3,009,518</u>

Notes receivable represent low interest notes for development projects and home improvements granted to eligible City residents and businesses under the Federal Community Development Block Grant, the Community Housing Improvement Program, and the Urban Development Action Grant. The notes bear interest at an annual rate of 7 to 8 percent. The notes are to be repaid over periods ranging from five to fifteen years. The gross notes receivable are \$ 2,557,415 with uncollectible of \$378,477 at December 31, 2001. The notes are recorded net of an allowance for uncollectibles in the amount of \$2,178,968.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 9 – RECEIVABLES (CONTINUED)

A summary of the principal items of intergovernmental receivables follows:

<u>Fund Type / Fund Source</u>	<u>Amounts</u>
GENERAL FUND	
Liquor Permit Fees	\$ 4,340
Indigent Defense Fees	37,472
Homestead and Rollback	81,576
Water District Fees	19,572
Local Government	1,163,443
Estate Taxes	130,535
Miscellaneous	<u>4,979</u>
Total General Fund	<u>1,441,917</u>
SPECIAL REVENUE FUND	
Motor Vehicle License Tax	302,801
Gasoline Excise Tax	343,054
Community Housing Improvement Program (CHIP) Grant	637,103
Community Development Block Grant (CDBG)	1,738,138
Weed and Seed FY01 Grant	175,000
Weed and Seed FY00 Grant	155,000
Juvenile Accountability Incentive Block Grant	93,070
Other Federal and State Grants	<u>21,955</u>
Total Special Revenue Fund	<u>3,466,121</u>
CAPITAL PROJECT FUNDS	
State Issue II Grants	30,036
State House Bill 850 Cop 786 Grant	<u>5,536</u>
Total Capital Projects Funds	<u>35,572</u>
Total Intergovernmental Receivable	<u>\$4,943,610</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 10 - FIXED ASSETS

A. General Fixed Assets

The summary of changes in general fixed assets during 2001 is as follows:

	<u>Balance</u> 12/31/00	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/01
Land	\$ 4,357,461	\$ 26,226	\$ 0	\$ 4,383,687
Buildings	11,455,547	351,969	0	11,807,516
Equipment	4,316,355	334,779	152,844	4,498,290
Vehicles	<u>4,083,731</u>	<u>269,106</u>	<u>118,460</u>	<u>4,234,377</u>
	<u>\$ 24,213,094</u>	<u>\$ 982,080</u>	<u>\$ 271,304</u>	<u>\$ 24,923,870</u>

B. Fund Fixed Assets

All fund fixed assets relate to the water, sewer, and refuse enterprise funds. The balances as of December 31, 2001, 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	\$ 1,122,423
Buildings	33,815,163
Equipment	18,625,058
Vehicles	3,143,944
Water and Sewer Lines	27,655,776
Intangible Assets	317,988
Construction in Progress	<u>2,503,758</u>
Total Fund Fixed Assets	87,184,110
Less: Accumulated Depreciation	<u>(47,479,093)</u>
Total Fund Fixed Assets (net of accumulated depreciation)	<u>\$ 39,705,017</u>

NOTE 11 - RISK MANAGEMENT

A. Self Insurance Program

The City has elected to provide employee medical and life benefits through a self insured program. All funds of the City participate in the program and make payments to the Health Benefits Internal Service Fund based on the amounts needed to pay prior and current year claims. This plan provides a medical plan with a \$100 single and a \$200 family deductible for all employees. Under this program, the fund provides coverage for up to a maximum of \$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.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 11 - RISK MANAGEMENT (CONTINUED)

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, 2001, are estimated based on past experience in payment of claims at \$371,663.

	Beginning Of Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claims <u>Payments</u>	End of Year <u>Liability</u>
2000	\$1,548,526	\$2,895,332	\$3,734,253	\$ 709,605
2001	709,605	3,411,486	3,749,428	371,663

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 2001 the City contracted with a third party for insurance as follows:

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 11 - RISK MANAGEMENT (CONTINUED)

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

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

NOTE 12 - EMPLOYEE BENEFITS

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 \$2,150,673. Accruals in the amount of \$32,849 and \$658,060 for compensated absences payable is reported within the general and enterprise funds, respectively.

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. Public Employees Retirement System

The City contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing multiple employer defined benefit plan administered by the Public Employees Retirement Board. PERS provides basic retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. The report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-PERS (7377).

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rates are 8.5% for employees other than law enforcement. In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%.

The 2001 employer contribution rate for state employers was 13.31% of covered payroll. For local government employer units the rate was 13.55% of covered payroll. The 2001 employer contribution rate for both the law

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 13 - DEFINED BENEFIT PENSION PLANS (CONTINUED)

enforcement and public safety divisions was 16.70% of covered payroll. Required employer contributions are equal to 100% of the dollar amount billed to each employer and must be extracted from the employer's records. The City's contributions to PERS for the years ended December 31, 2001, 2000 and 1999 were \$1,377,820, \$878,788 and \$953,128, respectively.

B. Ohio Police and Fire Pension Fund

The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple employer defined benefit pension plan. OP&F 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 OP&F issues a publicly available financial report that includes financial statements and required supplementary information for OP&F. That report may be obtained by writing to OP&F, 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 OP&F for the years ending December 31, 2001, 2000, and 1999 were \$742,734, \$723,948 and \$1,038,618, respectively, equal to the required contributions for each year.

NOTE 14 – 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 postretirement health care coverage to age and service retirees with ten or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to PERS is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority for employer contributions. The PERS law enforcement program was separated into two divisions, law enforcement and public safety, with separate employee contribution rates and benefits. The 2001 employer contribution rate for state employers was 13.31% of covered payroll; 4.30% was the portion used to fund health care for the year. For local government employer units the rate was 13.55% of covered payroll; 4.30% was the portion used to fund health care for the year. The 2001 employer rate was 16.70% and 4.30% was used to fund health care for both the law enforcement and public safety divisions. The Ohio Revised Code provides the statutory authority requiring public employers to fund postretirement health care through their contributions to PERS.

Benefits are advance-funded using the entry age normal cost method. Significant actuarial assumptions, based on PERS's latest actuarial review performed as of December 31, 2000, include a return on investments of 7.75%, an annual increase in active employee total payroll of 4.75% compounded annually (assuming no change in the number of active employees) and an additional increase in total payroll of between .54% and 5.1% based on additional annual pay increases. Health care costs were assumed to increase 4.75% annually.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 14 – POST-EMPLOYMENT BENEFITS (CONTINUED)

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

The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$14,364.60 million and \$2,628.7 million, respectively. As of December 31, 2000, the unaudited estimated net assets available for future OPEB payments were \$11,735.9 million. The number of statewide benefit recipients eligible for OPEB at December 31, 2000 was \$411,076.

In January 2001, House Bill 416 divided the PERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the PERS law enforcement program were placed in a newly named public safety division and continue to contribute at 9.0%. The employer contribution rate for both the law enforcement and public safety divisions is 16.70%.

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

The Ohio Police and Fire 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. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.25% and 7.5% of covered payroll in 2000 and 2001, respectively. The allocation is 7.75% in 2002. 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 to receive health care benefits as of December 31, 2000, the date of the last actuarial valuation available, are 12,853 for police and 10,037 for firefighters. The City's 2001 contribution was approximately \$396,339 to fund the City's portion of their 2001 OPEB obligation to the retirement system.

OP&F total health care expenses for the year ending December 31, 2000, the date of the last actuarial information available, was \$106,160,054, which was net of member contributions of \$5,657,431.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 15 - LONG-TERM OBLIGATIONS

Bonded debt and other long-term obligations payable activity for the year ended December 31, 2001, were as follows:

	<u>Interest Rate %</u>	<u>Balance 12/31/00</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance 12/31/01</u>
GENERAL LONG-TERM OBLIGATIONS					
<u>Special Assessment Bonds:</u>					
1983B South Main Street CBD	8.75	\$ 12,000	\$ 0	\$ 4,000	\$ 8,000
1987 Industry Avenue	7.25	144,000	0	18,000	126,000
1992 West Elm and North Street	5.50	70,000	0	35,000	35,000
1995 Elm/Woodlawn/Pine Street	5.20	185,000	0	35,000	150,000
1996 Market/Collett/Elmwood	5.80	90,000	0	15,000	75,000
Total Special Assessment Bonds		<u>501,000</u>	<u>0</u>	<u>107,000</u>	<u>394,000</u>
<u>Unvoted General Obligation Bonds</u>					
1999 Various Purpose Refunding Bonds	4.00-5.80				
Municipal Center Refunding`		1,115,000	0	15,000	1,100,000
Parking Facility		750,000	0	5,000	745,000
Total Unvoted General Obligation Bonds		<u>1,865,000</u>	<u>0</u>	<u>20,000</u>	<u>1,845,000</u>
<u>Bond Anticipation Notes</u>					
Ottawa River Bikeway	2.98	0	400,000	0	400,000
Total Bond Anticipation Notes		<u>0</u>	<u>400,000</u>	<u>0</u>	<u>400,000</u>
<u>Other Long-Term Obligations</u>					
Compensated Absences		2,218,532	0	67,859	2,150,673
Intergovernmental Payables		350,801	0	6,702	344,099
Judgment Payable		110,000	0	0	110,000
Loans Payable	4.75	133,572	0	41,200	92,372
Capital Leases	4.90-6.00	308,618	0	141,953	166,665
Total Other Long-Term Obligations		<u>3,121,523</u>	<u>0</u>	<u>257,714</u>	<u>2,863,809</u>
Total General Long-Term Obligations		<u>5,487,523</u>	<u>400,000</u>	<u>384,714</u>	<u>5,502,809</u>
ENTERPRISE FUND OBLIGATIONS					
<u>Revenue Bonds</u>					
1992 Water Revenue Refunding Bonds	5.10-6.30	3,825,000	0	365,000	3,460,000
1992 Sewer Revenue Refunding Bonds	5.10-6.30	3,925,000	0	260,000	3,665,000
Total Enterprise Revenue Bonds		<u>7,750,000</u>	<u>0</u>	<u>625,000</u>	<u>7,125,000</u>
<u>Unvoted General Obligation Bonds</u>					
1999 Various Purpose Refunding Bonds	4.00-5.80				
Refuse Bonds		465,000	0	75,000	390,000
Unamortized Discount		(1,758)	284	0	(1,474)
Total Refuse Bonds		<u>463,242</u>	<u>284</u>	<u>75,000</u>	<u>388,526</u>
Water Refunding	4.00-5.30	2,320,000	0	60,000	2,260,000
Unamortized Accounting Loss		(131,001)	3,388	0	(127,613)
Unamortized Discount		(32,815)	849	0	(31,966)
Total Water Refunding		<u>2,156,184</u>	<u>4,237</u>	<u>60,000</u>	<u>2,100,421</u>
Sewer Refunding	4.00-5.30	2,620,000	0	50,000	2,570,000
Unamortized Accounting Loss		(153,794)	2,935	0	(150,859)
Unamortized Discount		(38,412)	733	0	(37,679)
Total Sewer Refunding		<u>2,427,794</u>	<u>3,668</u>	<u>50,000</u>	<u>2,381,462</u>
Total Unvoted General Obligation Bonds		<u>5,047,220</u>	<u>8,189</u>	<u>185,000</u>	<u>4,870,409</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 15 - LONG-TERM OBLIGATIONS (CONTINUED)

	Interest Rate %	Balance <u>12/31/00</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>12/31/01</u>
<u>Bond Anticipation Notes</u>					
Sanitary Sewer System	2.98	0	<u>3,680,000</u>	<u>0</u>	<u>3,680,000</u>
Total Bond Anticipation Notes		<u>0</u>	<u>3,680,000</u>	<u>0</u>	<u>3,680,000</u>
<u>Other Long-Term Obligations</u>					
OWDA Loan	5.50	1,323,379	0	220,564	1,102,815
OWDA Loan	3.75	<u>6,877,274</u>	<u>385,269</u>	<u>127,363</u>	<u>7,135,180</u>
Total Enterprise Other Long-Term Obligations		<u>8,200,653</u>	<u>385,269</u>	<u>347,927</u>	<u>8,237,995</u>
Total Enterprise Fund Obligations		<u>20,997,873</u>	<u>4,073,458</u>	<u>1,157,927</u>	<u>23,913,404</u>
Total - All Long-Term Obligations		<u>\$ 26,485,396</u>	<u>\$ 4,473,458</u>	<u>\$ 1,542,641</u>	<u>\$ 29,416,213</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.

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.

Bond Anticipation Notes - The bond anticipation notes represent short-term amounts borrowed by the City to pay for improvements in anticipation of issuing new bonds and repay the current notes with the proceeds. During 2001, the General Fund borrowed \$400,000 for the purpose of paying costs of the Second Phase of the Ottawa River Bikeway and the Sewer Enterprise Fund borrowed \$3,680,000 for the purpose of paying costs to update the City's sanitary sewer system.

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 15 - LONG-TERM OBLIGATIONS (CONTINUED)

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

The revenue refunding bonds maturing on December 1, 2012 are subject to mandatory sinking fund redemption in part by lot. The mandatory redemptions are to occur on December 1 in each of the years 2002 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>
2002	\$ 385,000	\$ 290,000	\$ 675,000
2003	405,000	315,000	720,000
2004	430,000	345,000	775,000
2005	405,000	190,000	595,000
2006	435,000	210,000	645,000
2007	460,000	285,000	745,000
2008	490,000	360,000	850,000
2009	450,000	380,000	830,000
2010	0	405,000	405,000
2011	0	430,000	430,000
2012	<u>0</u>	<u>455,000</u>	<u>455,000</u>
Total	<u>\$3,460,000</u>	<u>\$3,665,000</u>	<u>\$7,125,000</u>

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

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

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 15 - LONG-TERM OBLIGATIONS (CONTINUED)

Principal and interest requirements to retire general long-term debt obligations outstanding at December 31, 2001 are as follows:

	<u>General Obligation</u>	<u>Special Assessment</u>	<u>Loans</u>	<u>Total</u>
2002	\$ 119,890	\$ 130,910	\$ 47,365	\$ 298,165
2003	118,790	89,640	50,943	259,373
2004	117,665	81,295	0	198,960
2005	271,503	77,300	0	348,803
2006	268,043	73,305	0	341,348
Thereafter	<u>1,837,228</u>	<u>39,915</u>	<u>0</u>	<u>1,877,143</u>
	2,733,119	492,365	98,308	3,323,792
Less interest	<u>(888,119)</u>	<u>(98,365)</u>	<u>(5,936)</u>	<u>(992,420)</u>
	<u>\$ 1,845,000</u>	<u>\$ 394,000</u>	<u>\$ 92,372</u>	<u>\$ 2,331,372</u>

Principal and interest requirements to retire the long-term debt obligations outstanding at December 31, 2001 from the enterprise funds are as follows:

	<u>Revenue Bonds</u>	<u>General Obligation (Gross)</u>	<u>OWDA Loans</u>	<u>Total</u>
2002	\$ 1,111,703	\$ 471,170	\$ 822,808	\$ 2,405,681
2003	1,118,903	506,930	822,808	2,448,641
2004	1,132,502	510,455	822,808	2,465,765
2005	907,165	462,901	926,890	2,296,956
2006	919,680	461,856	535,524	1,917,060
Thereafter	<u>4,435,405</u>	<u>4,869,430</u>	<u>7,291,240</u>	<u>16,596,075</u>
	9,625,358	7,282,742	11,222,078	28,130,178
Less Interest	<u>(2,500,358)</u>	<u>(2,062,742)</u>	<u>(2,984,083)</u>	<u>(7,547,183)</u>
	<u>\$ 7,125,000</u>	<u>\$ 5,220,000</u>	<u>\$ 8,237,995</u>	<u>\$ 20,582,995</u>

NOTE 16 - INTERFUND TRANSACTIONS

As of December 31, 2001, 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	\$ 423,117	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Special Revenue Funds	0	423,117	0	0	0	0
Debt Service Funds	113,458	0	0	0	0	148,318
Capital Project Fund	0	113,458	0	0	315,934	0
Enterprise Funds	0	0	132,240	132,240	0	137,243
Internal Service Fund	0	0	0	0	0	0
Agency Fund	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>30,373</u>
Total	<u>\$ 536,575</u>	<u>\$ 536,575</u>	<u>\$ 132,240</u>	<u>\$ 132,240</u>	<u>\$ 315,934</u>	<u>\$ 315,934</u>

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 17 - 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 \$347,460. 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. Principal payments in 2001 totaled \$141,953 in governmental 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, 2001.

Year Ending December 31,	GLTOAG
2002	\$ 86,286
2003	48,872
2004	48,872
Total Minimum Lease Payments	184,030
Less: Amount Representing Interest	(17,365)
Present Value of Minimum Lease Payments	\$ 166,665

NOTE 18 - 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.

The retained earnings was reserved as follows as of December 31, 2001:

	Water	Sewer	Total
Revenue bond plant improvement and replacement	\$ 800,000	\$ 800,000	\$1,600,000
Revenue bond operations	1,055,436	782,806	1,838,242

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 18 - RESERVED RETAINED EARNINGS AND RESTRICTED ASSET ACCOUNTS
(CONTINUED)

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	\$ 239,793	\$ 0	\$ 239,793
Revenue bond plant improvements and replacement	800,000	800,000	1,600,000
Revenue bond operations	<u>1,055,436</u>	<u>782,806</u>	<u>1,838,242</u>
Total restricted assets held by City	<u>\$ 2,095,229</u>	<u>\$ 1,582,806</u>	<u>\$ 3,678,035</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<u>Restricted assets held by Trustee for:</u>			
Revenue bond current debt service	\$ 37,663	\$ 28,136	\$ 65,799
Revenue bond future debt service	<u>580,381</u>	<u>633,349</u>	<u>1,213,730</u>
Total restricted assets held by Trustee	<u>\$ 618,044</u>	<u>\$ 661,485</u>	<u>\$1,279,529</u>

NOTE 19 - OUTSTANDING CONTRACTUAL COMMITMENTS

As of December 31, 2001, the City had contractual purchase commitments as follows:

<u>Project</u>	<u>Outstanding Balance</u>
Combined Sidewalk Project	\$ 21,324
CSO Phase II Design/Build	3,440,406
Demo 143-45 S. Main	19,146
Dodge Intrepid	15,735
Dump Truck	54,528
Liberty Commons – Phase One	151,239
North Street Bridge	79,966
Ottawa River Light Project	122,710
Ottawa River – Phase One	400,000
Robb Ave Traffic Signal System	72,772
Southeast Trunk Sewer	74,829
Street Resurfacing and Widening	40,731
Wastewater Treatment Improvements	206,150
WTP Improvement Const. Phase	94,765

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 20 - SEGMENT INFORMATION - ENTERPRISE FUNDS

The City's enterprise funds account for the provision of water, sewer, and refuse. Key financial information as of and for the year ended December 31, 2001, for each enterprise fund is as follows:

<u>Description</u>	<u>Water</u>	<u>Sewer</u>	<u>Refuse</u>	<u>Total</u>
Operating Revenues	\$ 7,979,961	\$ 7,710,210	\$ 2,239,178	\$ 17,929,349
Depreciation Expense	(908,308)	(1,547,831)	0	(2,456,139)
Operating Income	2,163,909	2,057,965	474,411	4,696,285
Operating Transfer-In (Out)	(20,000)	(20,000)	0	(40,000)
Net Income	2,571,144	1,618,143	449,350	4,638,637
Current Capital Contributions from				
From Tap-in Fees	70,729	0	0	70,729
Capital Grants and Infrastructure				
Donations	242,717	0	0	242,717
Depreciation Expense attributable				
To Contributed Capital	(8,054)	(298,657)	0	(306,711)
Fixed Assets:				
Additions	3,070,065	3,201,623	0	6,271,688
Deletions	(118,916)	(131,149)	0	(250,065)
Net Working Capital	11,796,674	10,849,454	612,063	23,258,191
Total Assets	25,868,419	39,828,724	641,446	66,338,589
Bonds and Other Long-Term				
Obligations:				
Revenue Bonds Payable-restricted	385,000	290,000	0	675,000
Revenue Bonds Payable	3,075,000	3,375,000	0	6,450,000
OWDA Loans	0	8,237,995	0	8,237,995
Compensated Absences	319,065	329,599	9,396	658,060
General Obligation Bonds	2,100,421	2,381,462	388,526	4,870,409
Advance from Other Funds	0	132,240	0	132,240
Bond Anticipation Notes	0	3,680,000	0	3,680,000
Total Equity	19,185,480	19,674,877	223,537	39,083,894
Encumbrances Outstanding (Budget				
Basis) at December 31, 2001	653,563	4,126,237	2	4,779,802

CITY OF LIMA – ALLEN COUNTY
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2001

NOTE 21 - CONTINGENT LIABILITIES

A. Litigation

As of December 31, 2001, 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, 2001.

NOTE 22 – RESTATEMENT OF FUND EQUITY

Interfund payable of \$108,000 and due to other funds of \$322,868 was originally reported in the Special Revenue Fund in the 2000 financial statements. It has been determined that these amounts should have been the Capital Projects Fund. To properly reclassify these items, the following restatements occurred. The Special Revenue Fund's interfund payable decreased to \$0 from its original stated value of \$108,000, the due to other funds decreased to \$0 from its original stated value of \$322,868 and fund equity increased to \$2,913,444 from its original stated value of \$2,482,576. The Capital Projects Fund's interfund payable increased to \$108,000 from its original stated value of \$0, the due to other funds increased to \$322,868 from its original stated value of \$0 and fund equity decreased to \$249,026 from its original stated value of \$679,894.

Equity in pooled cash and cash equivalents in the Debt Service Fund was \$75,088 in the 2000 financial statements. It has been determined that \$74,999 of this amount actually belonged in the General Fund. To properly reclassify these items, the following restatements occurred. The Debt Service Fund's equity in cash and cash equivalents decreased to \$89 from its original stated value of \$75,088 and fund equity decreased to \$312,203 from its original stated value of \$387,202. The General Fund's equity in cash and cash equivalents increased to \$2,115,407 from its original stated value of \$2,040,408 and fund equity increased to \$1,922,616 from its original stated value of \$1,847,617.

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**City of Lima, Ohio
Allen County**

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

December 31, 2001

(With Independent Auditors' Reports Thereon)

City of Lima, Ohio

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Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Mayor and Members of Council
City of Lima
Lima, Ohio

We were engaged to audit the Schedule of Expenditures of Federal Awards (the Schedule) of City of Lima, Ohio (the City) for the year ended December 31, 2001. This Schedule is the responsibility of the City's management.

The City received a disclaimer of opinion on the December 31, 2000 financial statements. The disclaimer prohibited us from rendering an opinion on all of the financial statements for the year ended December 31, 2001 except for the balance sheet. Therefore, we are unable to express an opinion on the Schedule.

Since the City received the disclaimer of opinion, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Schedule of Expenditures of Federal Awards.

Rea & Associates, Inc.

June 9, 2003

CITY OF LIMA, OHIO
Schedule of Expenditures of Federal Awards
Year ended December 31, 2001

Federal Grantor/ Program Title	CFDA Number	Agency or Pass-Through Number	Federal Disbursements
U. S. Department of Housing and Urban Development			
Direct Programs:			
Community Development Block Grant	14.218	MC-39-0014	\$ 1,769,002
HOME Renewal Program	14.239	MC-39-0219	670,092
HOME Renewal Loan Program	14.239	MC-39-0219	20,469
HUD Drug Elimination Grant	14.193	N/A	<u>86,731</u>
Total U.S. Department of Housing and Urban Development			<u>2,546,294</u>
U.S. Department of Justice			
Direct Programs:			
Weed & Seed Core	16.595	DD-BX-0147	202,252
Asset for Forfeiture	16.000	N/A	35,184
Juvenile Accountability and Incentive Block Grant	16.523	JB-013-A049	39,662
Restorative Justice Grant	16.579	99-JJ-GA1-0405	970
Law Enforcement Block Grant	16.592	LB-VX-3299	<u>182,226</u>
Total Direct Programs			460,294
Pass through Programs:			
Ohio Department of Justice Byrne Grant	16.540	DG-BO2-7032	<u>56,465</u>
Total U.S. Department of Justice			<u>516,759</u>
U.S. Department of Transportation			
Pass through Programs:			
Highway Planning & Construction	20.205		<u>72,000</u>
Total U.S. Department of Transportation			<u>72,000</u>
Total Federal Financial Assistance			<u><u>\$ 3,135,053</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, 2001

(1) General

The accompanying schedule of expenditures of federal awards (the Schedule) presents activity of all federal financial assistance programs of the City of Lima, Ohio (the City). The City's reporting entity is defined in note 1 to the City's general purpose financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is 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, 2001. 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	\$20,469

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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

Mayor and Members of Council
City of Lima
Lima, Ohio

We have audited the general purpose financial statements of the City of Lima, Ohio (the City) as of and for the year ended December 31, 2001, and have issued our report thereon dated June 9, 2003. Other auditors, whose report was dated December 11, 2002, disclaimed an opinion on the general purpose financial statements for the year ended December 31, 2000 due to a scope limitation. Due to the disclaimer, we were required to disclaim an opinion on all statements except for the balance sheet. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards," issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of general purpose financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under "Government Auditing Standards," which we described in the accompanying schedule of findings and questioned costs as items 01-2, 01-3 and 01-04. We also noted certain immaterial instances of noncompliance that we have reported to management of the City in a separate letter dated June 9, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements 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 the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 01-1.

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

Page 2

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the City in a separate letter dated June 9, 2003.

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

Rea & Associates, Inc.

June 9, 2003

Rea & Associates, Inc.

ACCOUNTANTS AND BUSINESS CONSULTANTS

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

Mayor and Members of Council
City of Lima
Lima, Ohio

Compliance

We have audited the compliance of City of Lima, Ohio (the City) with the types of compliance requirements described in the "U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to each of its major Federal programs for the year ended December 31, 2001. The City's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on City of Lima, Ohio's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended December 31, 2001. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 01-5.

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

Page 2

Internal Control Over Compliance

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

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 the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major Federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 01-5.

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 applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Hea & Associates, Inc.

June 9, 2003

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2001

(1) Summary of Auditors' Results:

(a) Type of report issued on the general purpose financial Statements	Unqualified on the Balance Sheet and Disclaimer on the Income Statement
(b) Reportable conditions in internal control were disclosed by the audit of the financial statements	Yes
Material weaknesses	No
(c) Noncompliance which is material to the general purpose financial statements	Yes
(d) Reportable conditions in internal controls over major programs	Yes
Material weaknesses	No
(e) Type of report issued on compliance for major programs	Unqualified for HOME Renewal and Community Development Block Grant
(f) Any audit findings which are required to be reported under Section 510(s) 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, 2001

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

Finding 01-1 (repeat of 00-2 and 99-2) – Bank Account Reconciliation

Timely account reconciliations of subsidiary accounting records are 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 City performed a portion of the bank reconciliation monthly; however, the City did not investigate differences and irregularities each month to determine if they were appropriate reconciling items. In addition, the City does not appear to have an appropriate level of understanding for the sinking fund accounts and its related activities. Failure to timely and properly reconcile these accounts enhances the 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

Finding 01-2 – Expenditures in Excess of Appropriations

Section 5705.41(B), of the Ohio Revised Code, states no subdivision is to expend money unless it has been appropriated. Where an account has had expenditures (including encumbrances) in excess of appropriations, this is a violation of this Code section. For the year ended December 31, 2001, the City had the following expenditures in excess of appropriations:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Fund:2			
Chip-Housing Improvement Fund			
Total Expenses	\$ 632,000	\$ 670,092	\$ (38,092)

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2001

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

Finding 01-3 – Appropriations in Excess of Estimated Resources Plus Available Balances

Section 5705.39, of the Ohio Revised Code, states the total appropriations from each fund should not exceed the total estimated revenues of the fund. The following funds had appropriations in excess of estimated resources plus available balances for the year ended December 31, 2001.

<u>Fund Type/Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Excess</u>
Special Revenue Fund:			
Street Repair Fund	\$ 1,119,794	\$ 1,525,261	\$ (405,287)
CDBG Block Grant	2,514,244	2,660,999	(146,755)
2000-WS-QX-0179 Core	21,500	80,700	(59,200)
1999-JB-013-A049 JAIBG	30,000	40,000	(10,000)
2001-WS-QX-0157 Weed/Seed	0	175,000	(175,000)
Enterprise Fund:			
Refuse Revenue Fund	2,285,680	2,290,111	(4,431)
Internal Service Funds:			
Public Works Gasoline	189,800	192,000	(2,200)

Finding 01-4 – Deficit Cash Balances

Section 5705.10, of the Ohio Revised Code, states that money paid into any fund shall be used only for the purposes for which such fund was established. The existence of a deficit cash balance in any fund indicates that money from another fund or funds has been used to pay the obligations of the fund or funds carrying the deficit cash balance. The Street Repair and 2000-WS-QX-0170 W&S FY00 Core and 2001-WS-QX-0157 Weed/Seed 2 special revenue funds had a deficit cash balances on a budgetary basis at year end in the amount of \$369,727, \$42,821 and \$10,569, respectively.

CITY OF LIMA, OHIO

Part III – Schedule of Findings and Questioned Costs

Year ended December 31, 2001

(3) Findings And Questioned Costs for Federal Awards:

Finding 01-5 (repeat of 00-5, 99-5 and 98-1) – General Administration

Criteria:

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

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.

Cause:

The City does not completely identify each federal grant separately in the general ledger, and does not investigate new grant programs to determine if the funds are federal or not. The City does not have a centralized individual or department writing and monitoring all grants. The City has begun to better identify federal grant funds separately in its general ledger, and has taken steps to centralize the monitoring.

Recommendation:

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

CITY OF LIMA, OHIO

Part IV – Summary Schedule of Prior Audit Findings

Year ended December 31, 2001

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

Corrective action was taken by the City when they created the position of Director of Audit Services. The current Director has shown the necessary knowledge of GAAP and the ability to take responsibility for the financial reporting process of the City. No further actions are deemed necessary.

Findings and Questioned Costs for Federal Awards:

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

Corrective action was taken by the City when they required and obtained semi-annual certifications of employees' time paid for with federal grants. As noted by the prior auditor, corrective had been taken prior to the issue of their 2000 audit report. No further actions are deemed necessary.

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

Corrective action has been taken by the City by inspecting the two homes that require inspection. The Department of Community Development is performing these inspections and the Director of Audit Services has verified that these inspections have been completed. During our 2001 Single Audit testing, no exceptions were noted in this regard. No further actions are deemed necessary.



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Betty Montgomery**

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CITY OF LIMA

ALLEN COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
NOVEMBER 20, 2003**