

***THE CITY OF LOVELAND, OHIO***

---

HAMILTON, CLERMONT AND WARREN COUNTIES

GENERAL PURPOSE  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 1998

Submitted by:  
Mr. William Taphorn  
Director of Finance

Prepared by:  
Donald J. Schonhardt &  
Associates, Inc.



**STATE OF OHIO**  
**OFFICE OF THE AUDITOR**

JIM PETRO, AUDITOR OF STATE

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Members of Council  
City of Loveland

We have reviewed the Independent Auditor's Report of the City of Loveland, Hamilton County, prepared by Foxx & Company for the audit period January 1, 1998 through December 31, 1999. 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 Loveland is responsible for compliance with these laws and regulations.

JIM PETRO  
Auditor of State

December 6, 2000

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## CITY OF LOVELAND, OHIO HAMILTON, CLERMONT AND WARREN COUNTIES

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**Foxx & Company**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Council Members  
City of Loveland

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

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

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

As more fully described in Note 3 to the general-purpose financial statements, the City changed its method of accounting for certain investments and its deferred compensation plan and has increased the threshold for capitalizing fixed assets.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2000 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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.

Cincinnati, Ohio  
June 30, 2000

**THE CITY OF LOVELAND, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 1998**

	<i>Governmental Fund Types</i>			<i>Proprietary Fund Type</i>	<i>Fiduciary Fund Type</i>	<i>Account Groups</i>		Totals (Memorandum Only)	
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Agency Funds	General Fixed Assets		General Long-Term Obligations
<b>Assets and Other Debits:</b>									
<b>Assets:</b>									
Cash and Cash Equivalents	\$0	\$989,712	\$17,106	\$231,775	\$2,340,103	\$0	\$0	\$0	\$3,578,696
Investments	0	818,221	0	201,228	1,385,723	0	0	0	2,405,172
Receivables (net of allowance for doubtful accounts):									
Taxes	920,294	941,061	0	0	0	0	0	0	1,861,355
Accounts	277	5,205	0	0	636,667	0	0	0	642,149
Interest	0	0	0	125,489	5,572	0	0	0	131,061
Special Assessments	0	0	9,386	80,000	0	0	0	0	89,386
Intergovernmental Receivables	33,507	37,580	0	0	0	0	0	0	71,087
Inventory of Supplies at Cost	1,205	13,619	0	0	22,797	0	0	0	37,621
Prepaid Items	4,518	5,880	0	900	5,992	0	0	0	17,290
<b>Restricted Assets:</b>									
Cash and Cash Equivalents	0	0	0	0	193,556	0	0	0	193,556
Cash with Fiscal Agent	0	0	22,677	0	0	6,021	0	0	28,698
Fixed Assets (net of accumulated depreciation)	0	0	0	0	7,805,684	0	13,455,015	0	21,260,699
Construction in Progress	0	0	0	0	824,666	0	72,169	0	896,835
<b>Other Debits:</b>									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	17,106	17,106
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	5,494,528	5,494,528
<b>Total Assets and Other Debits</b>	<b>\$959,801</b>	<b>\$2,811,278</b>	<b>\$49,169</b>	<b>\$639,392</b>	<b>\$13,220,760</b>	<b>\$6,021</b>	<b>\$13,527,184</b>	<b>\$5,511,634</b>	<b>\$36,725,239</b>

(Continued)

**THE CITY OF LOVELAND, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 1998**

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Agency Funds	General Fixed Assets	General Long-Term Obligations	
<b>Liabilities, Equity and Other Credits:</b>									
<b>Liabilities:</b>									
Accounts Payable	\$5,465	\$28,752	\$0	\$4,583	\$223,461	\$0	\$0	\$0	\$262,261
Accrued Wages and Benefits	88,483	47,872	0	5,172	25,900	0	0	0	167,427
Intergovernmental Payables	35,551	1,136	0	0	0	0	0	0	36,687
Due to Others	0	0	0	0	0	6,021	0	0	6,021
Matured Bonds and Interest Payable	0	0	22,677	0	0	0	0	0	22,677
Accrued Interest Payable	0	0	0	31,255	3,228	0	0	0	34,483
Deferred Revenue	592,081	926,060	9,386	83,125	0	0	0	0	1,610,652
General Obligation Note Payable	0	0	0	2,650,000	0	0	0	0	2,650,000
Compensated Absences Payable	0	0	0	0	89,323	0	0	428,173	517,496
Ohio Public Works Commission Loans Payable	0	0	0	0	0	0	0	2,383,697	2,383,697
General Obligation Bonds Payable	0	0	0	0	3,040,000	0	0	2,660,000	5,700,000
Landfill Closure and Postclosure Care Payable	0	0	0	0	31,600	0	0	0	31,600
Police Pension Accrued Liability	0	0	0	0	0	0	0	39,764	39,764
Total Liabilities	<u>721,580</u>	<u>1,003,820</u>	<u>32,063</u>	<u>2,774,135</u>	<u>3,413,512</u>	<u>6,021</u>	<u>0</u>	<u>5,511,634</u>	<u>13,462,765</u>
<b>Equity and Other Credits:</b>									
Investment in General Fixed Assets	0	0	0	0	0	0	13,527,184	0	13,527,184
Contributed Capital	0	0	0	0	2,797,828	0	0	0	2,797,828
Retained Earnings:									
Unreserved	0	0	0	0	7,009,420	0	0	0	7,009,420
Fund Balances:									
Reserved for Encumbrances	0	25,705	0	11,502	0	0	0	0	37,207
Reserved for Supplies Inventory	1,205	13,619	0	0	0	0	0	0	14,824
Reserved for Prepaid Items	4,518	5,880	0	900	0	0	0	0	11,298
Reserved for Debt Service	0	0	17,106	0	0	0	0	0	17,106
Unreserved:									
Undesignated	232,498	1,762,254	0	(2,147,145)	0	0	0	0	(152,393)
Total Equity and Other Credits	<u>238,221</u>	<u>1,807,458</u>	<u>17,106</u>	<u>(2,134,743)</u>	<u>9,807,248</u>	<u>0</u>	<u>13,527,184</u>	<u>0</u>	<u>23,262,474</u>
Total Liabilities, Equity and Other Credits	<u>\$959,801</u>	<u>\$2,811,278</u>	<u>\$49,169</u>	<u>\$639,392</u>	<u>\$13,220,760</u>	<u>\$6,021</u>	<u>\$13,527,184</u>	<u>\$5,511,634</u>	<u>\$36,725,239</u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
<b>Revenues:</b>					
Taxes	\$530,990	\$2,714,266	\$0	\$133,800	\$3,379,056
Intergovernmental Revenues	959,413	615,221	0	283,904	1,858,538
Charges for Services	76,268	71,535	0	24,562	172,365
Licenses and Permits	86,632	36,180	0	44,775	167,587
Investment Earnings	0	5,229	0	307,355	312,584
Fines and Forfeitures	141,938	2,367	0	0	144,305
All Other Revenues	476	93,582	0	12,200	106,258
Total Revenues	<u>1,795,717</u>	<u>3,538,380</u>	<u>0</u>	<u>806,596</u>	<u>6,140,693</u>
<b>Expenditures:</b>					
Current:					
Security of Persons and Property	1,543,418	1,131,319	0	0	2,674,737
Public Health and Welfare Services	0	2,023	0	0	2,023
Leisure Time Activities	273,785	0	0	0	273,785
Community Environment	133,868	0	0	0	133,868
Transportation	0	458,366	0	0	458,366
General Government	837,823	700,743	0	7,369	1,545,935
Capital Outlay	0	0	0	1,155,225	1,155,225
Debt Service:					
Principal Retirements	0	0	239,025	0	239,025
Interest and Fiscal Charges	0	0	225,414	112,028	337,442
Total Expenditures	<u>2,788,894</u>	<u>2,292,451</u>	<u>464,439</u>	<u>1,274,622</u>	<u>6,820,406</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(993,177)	1,245,929	(464,439)	(468,026)	(679,713)
<b>Other Financing Sources (Uses):</b>					
Operating Transfers In	1,035,986	105,000	464,220	422,778	2,027,984
Operating Transfers Out	(80,187)	(1,350,520)	0	(154,467)	(1,585,174)
Total Other Financing Sources (Uses)	<u>955,799</u>	<u>(1,245,520)</u>	<u>464,220</u>	<u>268,311</u>	<u>442,810</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(37,378)	409	(219)	(199,715)	(236,903)
Fund Balance (Deficit) Beginning of Year	275,684	1,802,650	17,325	(1,935,028)	160,631
Increase (Decrease) in Inventory Reserve	(85)	4,399	0	0	4,314
Fund Balance (Deficit) End of Year	<u>\$238,221</u>	<u>\$1,807,458</u>	<u>\$17,106</u>	<u>(\$2,134,743)</u>	<u>(\$71,958)</u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<i>General Fund</i>			<i>Special Revenue Funds</i>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<u>Revenues:</u>						
Taxes	\$580,000	\$580,882	\$882	\$2,697,073	\$2,720,424	\$23,351
Intergovernmental Revenues	986,000	945,395	(40,605)	590,500	610,743	20,243
Charges for Services	80,000	77,343	(2,657)	71,000	66,535	(4,465)
Licenses and Permits	85,000	86,632	1,632	30,000	36,180	6,180
Investment Earnings	0	0	0	0	0	0
Fines and Forfeitures	142,000	141,691	(309)	2,137	2,162	25
All Other Revenues	1,500	476	(1,024)	94,000	94,391	391
Total Revenues	<u>1,874,500</u>	<u>1,832,419</u>	<u>(42,081)</u>	<u>3,484,710</u>	<u>3,530,435</u>	<u>45,725</u>
<u>Expenditures:</u>						
Current:						
Security of Persons and Property	1,500,000	1,546,519	(46,519)	1,361,900	1,138,930	222,970
Public Health and Welfare Services	0	0	0	5,000	2,023	2,977
Leisure Time Activities	263,700	274,464	(10,764)	0	0	0
Community Environment	124,000	132,353	(8,353)	0	0	0
Transportation	0	0	0	647,090	445,256	201,834
General Government	869,700	834,882	34,818	2,127,710	742,982	1,384,728
Other Expenditures	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	<u>2,757,400</u>	<u>2,788,218</u>	<u>(30,818)</u>	<u>4,141,700</u>	<u>2,329,191</u>	<u>1,812,509</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(882,900)	(955,799)	(72,899)	(656,990)	1,201,244	1,858,234
<u>Other Financing Sources (Uses):</u>						
Proceeds from General Obligation Notes	0	0	0	0	0	0
Proceeds from Ohio Public Works Commission Loans	0	0	0	0	0	0
Operating Transfers In	775,500	1,035,986	260,486	105,000	105,000	0
Operating Transfers Out	(80,200)	(80,187)	13	(1,372,490)	(1,350,520)	21,970
Total Other Financing Sources (Uses)	<u>695,300</u>	<u>955,799</u>	<u>260,499</u>	<u>(1,267,490)</u>	<u>(1,245,520)</u>	<u>21,970</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(187,600)	0	187,600	(1,924,480)	(44,276)	1,880,204
Fund Balance at Beginning of Year	0	0	0	1,647,527	1,647,527	0
Prior Year Encumbrances	0	0	0	163,595	163,595	0
Fund Balance at End of Year	<u>(\$187,600)</u>	<u>\$0</u>	<u>\$187,600</u>	<u>(\$113,358)</u>	<u>\$1,766,846</u>	<u>\$1,880,204</u>

The notes to the general purpose financial statements are an integral part of this statement.



**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

<i>Debt Service Funds</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$134,000	\$133,800	(\$200)	\$3,411,073	\$3,435,106	\$24,033
0	0	0	675,000	283,904	(391,096)	2,251,500	1,840,042	(411,458)
0	0	0	25,000	24,562	(438)	176,000	168,440	(7,560)
0	0	0	45,000	44,775	(225)	160,000	167,587	7,587
0	0	0	330,000	337,531	7,531	330,000	337,531	7,531
0	0	0	0	0	0	144,137	143,853	(284)
0	0	0	13,500	12,200	(1,300)	109,000	107,067	(1,933)
0	0	0	1,222,500	836,772	(385,728)	6,581,710	6,199,626	(382,084)
0	0	0	0	0	0	2,861,900	2,685,449	176,451
0	0	0	0	0	0	5,000	2,023	2,977
0	0	0	0	0	0	263,700	274,464	(10,764)
0	0	0	0	0	0	124,000	132,353	(8,353)
0	0	0	0	0	0	647,090	445,256	201,834
0	0	0	9,800	7,335	2,465	3,007,210	1,585,199	1,422,011
17,325	0	17,325	6,000	0	6,000	23,325	0	23,325
0	0	0	2,743,103	1,196,779	1,546,324	2,743,103	1,196,779	1,546,324
239,025	239,025	0	2,830,000	2,830,000	0	3,069,025	3,069,025	0
226,823	225,414	1,409	115,697	115,667	30	342,520	341,081	1,439
483,173	464,439	18,734	5,704,600	4,149,781	1,554,819	13,086,873	9,731,629	3,355,244
(483,173)	(464,439)	18,734	(4,482,100)	(3,313,009)	1,169,091	(6,505,163)	(3,532,003)	2,973,160
0	0	0	2,650,000	2,650,000	0	2,650,000	2,650,000	0
0	0	0	409,200	422,778	13,578	409,200	422,778	13,578
465,848	464,220	(1,628)	1,077,290	(154,467)	(1,231,757)	2,423,638	1,450,739	(972,899)
0	0	0	(154,500)	0	154,500	(1,607,190)	(1,430,707)	176,483
465,848	464,220	(1,628)	3,981,990	2,918,311	(1,063,679)	3,875,648	3,092,810	(782,838)
(17,325)	(219)	17,106	(500,110)	(394,698)	105,412	(2,629,515)	(439,193)	2,190,322
17,325	17,325	0	323,734	323,734	0	1,988,586	1,988,586	0
0	0	0	489,124	489,124	0	652,719	652,719	0
\$0	\$17,106	\$17,106	\$312,748	\$418,160	\$105,412	\$11,790	\$2,202,112	\$2,190,322

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u><i>Enterprise Funds</i></u>
<u>Operating Revenues:</u>	
Charges for Service	\$3,293,040
Other Charges for Services	86,200
Total Operating Revenues	<u>3,379,240</u>
<u>Operating Expenses:</u>	
Personal Services	438,697
Materials and Supplies	67,229
Contractual Services	1,983,858
Utilities	100,036
Depreciation and Amortization	209,903
Other Operating Expenses	7,339
Total Operating Expenses	<u>2,807,062</u>
Operating Income	572,178
<u>Nonoperating Revenues (Expenses):</u>	
Intergovernmental Grant	28,696
Investment Earnings	28,761
Interest and Fiscal Charges	(42,850)
Loss on Disposal of Fixed Assets	(85,000)
Nonoperating Revenues	12,427
Total Nonoperating Revenues (Expenses)	<u>(57,966)</u>
Income Before Operating Transfers	514,212
<u>Operating Transfers:</u>	
Operating Transfers Out	<u>(442,810)</u>
Total Operating Transfers	<u>(442,810)</u>
Net Income	71,402
Retained Earnings at Beginning of Year	6,938,018
Retained Earnings at End of Year	<u><u>\$7,009,420</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED DECEMBER 31, 1998**

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,254,739
Cash Payments for Goods and Services	(2,127,754)
Cash Payments to Employees	(460,243)
Net Cash Provided by Operating Activities	<u>666,742</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Intergovernmental Grant Proceeds	28,696
Transfers Out to Other Funds	(442,810)
Net Cash Used for Noncapital Financing Activities	<u>(414,114)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(964,090)
Proceeds from General Obligation Bond	2,500,000
Landfill Postclosure Costs	(14,893)
Principal Paid on General Obligation Bonds	(95,000)
Interest Paid on All Debt	(43,485)
Net Cash Provided for Capital and Related Financing Activities	<u>1,382,532</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	7,034
Purchase of Investments	(212,208)
Net Cash Used by Investing Activities	<u>(205,174)</u>
Net Increase in Cash and Cash Equivalents	1,429,986
Cash and Cash Equivalents at Beginning of Year	1,103,673
Cash and Cash Equivalents at End of Year	<u><u>\$2,533,659</u></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$572,178
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	209,903
Miscellaneous Nonoperating Revenue	12,427
Changes to Assets and Liabilities:	
Increase in Accounts Receivable	(136,928)
Increase in Inventory	(5,527)
Increase in Prepaid Items	(2,398)
Increase in Accounts Payable	41,204
Increase in Accrued Wages and Benefits	10,608
Decrease in Compensated Absences	(34,725)
Total Adjustments	<u>94,564</u>
Net Cash Provided by Operating Activities	<u><u>\$666,742</u></u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 1998, the Water and Sanitation Funds had outstanding liabilities of \$163,891 and \$460, respectively for the purchase of certain capital assets.

**THE CITY OF LOVELAND, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1998**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

**A. Reporting Entity**

The accompanying general purpose financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance and other governmental services. In addition, the City provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

**B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation - Fund Accounting** (Continued)

*Governmental Funds*

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

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

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

Debt Service Funds - These funds are used for the accumulation of resources for the payment of general and special assessment long-term debt principal and interest.

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

*Proprietary Funds*

The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary fund is included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**B. Basis of Presentation - Fund Accounting** (Continued)

*Fiduciary Funds*

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and 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 - This account group is established to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term liabilities of the City except those accounted for in the proprietary funds.

**C. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting (Continued)**

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 1998 but which are not intended to finance 1998 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**D. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

**1. Tax Budget**

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process** (Continued)

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1998.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.



**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

**5. Lapsing of Appropriations**

At the close of each fiscal 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 subsequent fiscal year and need not be reappropriated.

**6. Budgetary Basis of Accounting**

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Budgetary Process** (Continued)6. Budgetary Basis of Accounting (Continued)

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
GAAP Basis (as reported)	(\$37,378)	\$409	(\$219)	(\$199,715)
Increase (Decrease):				
Accrued Revenues at December 31, 1998 received during 1999	(361,997)	(71,373)	0	(125,705)
Accrued Revenues at December 31, 1997 received during 1998	398,699	63,428	0	155,881
Accrued Expenditures at December 31, 1998 paid during 1999	129,499	77,760	0	41,010
Accrued Expenditures at December 31, 1997 paid during 1998	(136,305)	(86,732)	0	(73,767)
1997 Prepays for 1998	12,000	5,612	0	0
1998 Prepays for 1999	(4,518)	(5,880)	0	(900)
Note Proceeds	0	0	0	2,650,000
Note Retirement	0	0	0	(2,830,000)
Outstanding Encumbrances	0	(27,500)	0	(11,502)
Budget Basis	\$0	(\$44,276)	(\$219)	(\$394,698)

**E. Cash and Investments**

Cash and cash equivalents include amounts in demand deposits as well as the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the general purpose financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**E. Cash and Investments** (Continued)

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider its share of equity in STAR Ohio to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

**F. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost.

The City has invested funds in the STAR Ohio during 1998. STAR Ohio is an investment pool managed by the 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 share price which is the price the investment could be sold for on December 31, 1998. See Note 4, Cash, Cash Equivalents and Investments.

**G. Inventory**

Inventory is stated at cost (first in, first out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

**H. Fixed Assets and Depreciation**

The accounting and reporting treatment applied to fixed assets is determined by the ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets and Depreciation (Continued)**

**1. Property, Plant and Equipment - General Governmental Purposes (Continued)**

General fixed asset values were initially determined at December 31, 1988 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. The estimated cost for certain fixed assets was arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

**2. Property, Plant and Equipment - Proprietary Funds**

Property, plant and equipment (including water and sewer lines) acquired by the proprietary funds are stated at estimated historical cost. Estimated historical costs for water and sewer lines were derived by establishing a current cost for construction and indexing this cost back to the estimated date of original construction. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (Years)
Buildings	15 - 60
Improvements Other Than Buildings (Utility Lines)	50
Machinery, Equipment, Furniture and Fixtures	3 - 10

**I. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Bond Retirement Fund Water Fund Sewer Fund
Ohio Public Works Commission Loans	General Bond Retirement Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund
Police and Fire Pension Accrued Liability	General Fund

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned, and the related liability is reported within the fund.

**K. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

**L. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 1998.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items, supplies inventory, debt service, and encumbered amounts that have not been accrued at year end.

**N. Total Columns on Combined Financial Statements - Overview**

Total columns on the "Combined Financial Statements - Overview" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**O. Restricted Assets**

Certain assets are classified as restricted cash and cash equivalents and cash with fiscal agents on the balance sheet because these funds are not available for general operating purposes.

**NOTE 2 - COMPLIANCE AND ACCOUNTABILITY**

**A. Fund Deficits**

The fund deficit at December 31, 1997 of \$2,428,255 in the Special Projects Fund (capital projects fund) arises from the recognition of expenditures on the modified accrual basis, which are greater than those on the budgetary basis. The deficit does not exist under the cash basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 1998, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

Fund	Excess
General Fund:	
Security of Persons & Property	\$46,519
Leisure Time Activity	\$10,764
Community Development	\$8,353

The excess expenditures were funded from available fund balances.

**NOTE - 3 CHANGES IN ACCOUNTING PRINCIPLE/  
RESTATEMENT OF RETAINED EARNINGS**

**A. Restatement of Retained Earnings**

The retained earnings balance at December 31, 1997 of the Water, Sanitation, and Sewer Funds were restated from amounts previously reported to eliminate the reporting Property, Plant and Equipment below the capitalization threshold, which was increased from \$300 to \$1,000. The General Fixed Asset account group was also restated from the balance previously reported of \$11,983,152 to \$11,738,275, a decrease of \$240,159.

**B. Implementation of GASB Statement No. 31**

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

The change in capitalization threshold and the implementation of GASB Statement No. 31 have required a restatement of fund balance/retained earnings at December 31, 1997 in the following fund types in the amounts noted:

Fund Type	Balance as Reported 12/31/97	Capitalization Threshold Increase/ (Decrease)	Implementation of GASB 31 Increase/ (Decrease)	Balance as Restated 12/31/97
Special Revenue	\$1,794,292	\$0	\$8,358	\$1,802,650
Capital Projects	(1,937,494)	0	2,466	(1,935,028)
Enterprise	6,939,136	(7,971)	6,853	6,938,018

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**NOTE - 3 CHANGES IN ACCOUNTING PRINCIPLE/  
RESTATEMENT OF RETAINED EARNINGS (Continued)**

**B. Implementation of GASB Statement No. 31 (Continued)**

In addition to the above noted changes to retained earnings/fund balances the prior period adjustments had the following effect on prior year excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses:

**Special Revenue Funds:**

Excess (Deficiency) of Revenues and Other Financing Sources	(\$45,064)
Over (Under) Expenditures and Other Financing Uses	
Implementation of GASB 31	<u>8,358</u>

Excess (Deficiency) of Revenues and Other Financing Sources	
Over (Under) Expenditures and Other Financing Uses	<u>(\$36,706)</u>

**Capital Projects Funds:**

Excess (Deficiency) of Revenues and Other Financing Sources	\$1,105,711
Over (Under) Expenditures and Other Financing Uses	
Implementation of GASB 31	<u>2,466</u>

Excess (Deficiency) of Revenues and Other Financing Sources	
Over (Under) Expenditures and Other Financing Uses	<u>\$1,108,177</u>

**Enterprise Funds:**

Net Income	\$260,106
Change in capitalization threshold	(\$7,971)
Implementation of GASB 31	<u>6,853</u>
Net Income	<u>\$258,988</u>

**C. Implementation of GASB Statement No. 32**

The Internal Revenue Code previously required that Section 457 deferred compensation plan assets remain the property of the employer government until available to the employee or beneficiary. Under these regulations, plan assets were recorded in the City's deferred compensation agency fund.

Recent changes to the Internal Revenue Code require Section 457 plan assets to be held in trust for the exclusive benefit of the employees. These plans must establish trust agreements prior to January 1, 1999. During 1998, the Ohio Public Employees Deferred Compensation Program and Aetna Deferred Compensation Program (the "Plans") implemented a Trust Agreement to hold all Plan assets for the employer, whenever contributed, for the exclusive benefit of participants and their beneficiaries. Accordingly, the City has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" which requires that such assets held in trust, not be reflected on the government's financial statements. Inasmuch as the City no longer has an accounting fiduciary responsibility for the deferred compensation assets, the beginning balance of the agency funds has been restated to show the reduction of \$702,123 representing the balance of deferred compensation at December 31, 1997.



**NOTE - 3 CHANGES IN ACCOUNTING PRINCIPLE/  
 RESTATEMENT OF RETAINED EARNINGS (Continued)**

**C. Implementation of GASB Statement No. 32 (Continued)**

The adjustment resulted in the following changes to the agency funds asset/liability balances at December 31, 1997:

<b>Agency Funds:</b>	
Asset/Liability Balance - December 31, 1997 (as reported)	\$705,956
Adjustment due to change in accounting principle	<u>(702,123)</u>
Asset/Liability Balance - December 31, 1997 (restated)	<u><u>\$3,833</u></u>

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;
- 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;
- 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

*Deposits:*

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

*Investments:*

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**A. Deposits**

At year end the carrying amount of the City's deposits was \$283,516 and the bank balance was \$811,675. Federal depository insurance covered \$300,000 of the deposits and bank balance. All remaining deposits were classed as Category 3.

**B. Investments**

The City's investments at December 31, 1998 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Fair Value</u>
Certificates of Deposit	\$300,000	\$300,000
United States Treasury Notes	2,105,172	2,105,172
Total Categorized	<u>2,405,172</u>	<u>2,405,172</u>
<u>Non-Categorized Investments</u>		
STAR Ohio	N/A	3,488,736
Total Investments	<u>\$2,405,172</u>	<u>\$5,893,908</u>

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$3,772,252	\$2,405,172
Investments:		
STAR Ohio	<u>(3,488,736)</u>	<u>3,488,736</u>
Per GASB Statement No. 3	<u>\$283,516</u>	<u>\$5,893,908</u>

\* Does not include Cash with Fiscal Agent of \$28,698.

**D. Cash with Fiscal Agent**

Cash with Fiscal Agent includes funds on deposit with the Mayor's Court and a bond and coupon account, all of which are classified as Category 3.

**NOTE 5 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 1998 were levied after October 1, 1997 on assessed values as of January 1, 1997, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 1996 for Clermont County, 1994 for Warren County, and 1993 for Hamilton County.. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

The assessed values upon which the 1998 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$138,589	\$19,415,180	\$3,198,500
Personal Property:			
Tangible Personal Property	15,530,280	1,521,230	156,190
Public Utility Personal Property	6,806,660	2,223,260	104,880
Total Assessed Value	<u>\$22,475,529</u>	<u>\$23,159,670</u>	<u>\$3,459,570</u>
Tax Rate/Assessed Value	\$10.00/\$1,000	\$10.00/\$1,000	\$9.72/\$1,000

**NOTE 5 - TAXES** (Continued)

**B. Income Tax**

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 1998 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues.

**NOTE 7 - OPERATING TRANSFERS**

Following is a summary of operating transfers in and out for all funds for 1998:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$1,035,986	\$80,187
Special Revenue Fund:		
Fire Protection Fund	0	10,200
Income Tax Fund	105,000	1,270,333
Paramedic Fund	0	69,987
Total Special Revenue Funds	105,000	1,350,520
Debt Service Fund:		
General Bond Fund	464,220	0
Capital Projects Funds:		
Issue II Projects Fund	122,931	0
Recreation Capital Improvement Fund	190,580	154,467
Special Projects Fund	109,267	0
Total Capital Projects Funds	422,778	154,467
Enterprise Funds:		
Water Fund	0	393,010
Sewer Fund	0	10,700
Sanitation Fund	0	39,100
Total Enterprise Funds	0	442,810
Totals	<u>\$2,027,984</u>	<u>\$2,027,984</u>

**NOTE 8 - FIXED ASSETS**

**A. General Fixed Assets**

Summary by category of changes in general fixed assets:

Category	December 31, 1997	Additions	Deletions	December 31, 1998
Land	\$5,132,119	\$0	(\$122,656)	\$5,009,463
Buildings and Improvements	1,249,260	2,653,368	(150,849)	3,751,779
Improvements other than Buildings	1,198,466	5,400	0	1,203,866
Machinery and Equipment	2,353,554	1,228,593	(92,240)	3,489,907
Construction In Progress	1,804,876	28,077	(1,760,784)	72,169
Totals	\$11,738,275	\$3,915,438	(\$2,126,529)	\$13,527,184

**B. Proprietary Fixed Assets**

Summary by Category at December 31, 1998:

Category	Historic Cost	Accumulated Depreciation	Book Value
Land	\$256,907	\$0	\$256,907
Buildings and Improvements	1,446,273	(754,390)	691,883
Utility Structures in Services	9,426,961	(2,631,241)	6,795,720
Machinery and Equipment	152,164	(90,990)	61,174
Construction In Progress	824,666	0	824,666
Property, Plant and Equipment	\$12,106,971	(\$3,476,621)	\$8,630,350

**NOTE 9 - DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

**A. Public Employees Retirement System (the "PERS of Ohio")**

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1998 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1998, 1997 and 1996 were \$156,902, \$144,688 and \$122,694, respectively, which were equal to the required contributions for each year.

The PERS of Ohio provides postemployment health care benefits to age and service retirees with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirees. Health care coverage for disability recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1998 employer contribution rate (identified above) that was used to fund health care for the year 1998 was 4.2% of covered payroll which amounted to \$48,634.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1998 were \$440,596,663. As of December 31, 1998, the unaudited estimated net assets available for future OPEB payments were \$9,447,325,318. The number of benefit recipients eligible for OPEB at December 31, 1998 was 115,579.

**NOTE 9 - DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Public Employees Retirement System (the "PERS of Ohio") (Continued)**

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

**B. Police and Firemen's Disability and Pension Fund (the PFDPF System of Ohio)**

All City full-time police officers participate in the Police and Firemen's Disability and Pension Fund of Ohio (the "PFDPF System of Ohio"), a cost-sharing multiple-employer defined benefit pension plan. The PFDPF System of Ohio 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 are codified in Chapter 742 of the Ohio Revised Code. The Police and Firemen's Disability and Pension Fund of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PFDPF System of Ohio. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the PFDPF System of Ohio for the years ending December 31, 1998, 1997 and 1996 were \$144,630, \$141,124 and \$120,926 for police which were equal to the required contributions for each year.

The PFDPF System of Ohio provides postemployment health care coverage to any person who received 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 on a full-time or two-thirds basis. The Ohio Revised Code provides that health care costs paid from the funds of the Police and Firemen's Disability and Pension Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the PFDPF System of Ohio.

The portion of the 1998 covered payroll that was used to fund postemployment health care benefits was \$48,210 representing 6.50% of covered payroll for police. Health care funding and accounting were on a pay-as-you-go basis. 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. As of December 31, 1997, the number of participants eligible to receive health care benefits was 11,239 for police. The PFDPF System of Ohio does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1997 were \$76,459,832.



**NOTE 10 – COMPENSATED ABSENCES**

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every four hours of unused sick leave, making the maximum payout 356 hours. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee's may carry over up to one year of vacation credit plus six days to the next succeeding year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City provides a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for Governmental Funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount increased \$57,083 from a beginning year balance of \$371,090 to a year end balance of \$428,173.

At December 31, 1998 the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	17,502	\$360,190
Vacation	<u>3,518</u>	<u>67,983</u>
Total	<u>21,020</u>	<u>\$428,173</u>

Compensated absences attributable to the Enterprise Funds of \$89,323 have been recorded within the Enterprise Funds and are not included in the above figures.

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**NOTE 11 - NOTES PAYABLE**

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The City intends to retire its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

	Balance January 1, 1998	Issued (Retired)	Balance December 31, 1998
Capital Projects Funds Notes Payable:			
4.15% Real Estate Bond Anticipation Note	2,830,000	(2,830,000)	0
Capital Projects Funds Notes Payable:			
3.86% Real Estate Bond Anticipation Note	0	2,650,000	2,650,000
Total Notes Payable	\$2,830,000	(\$180,000)	\$2,650,000

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**NOTE 12 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 1998 were as follows:

			Balance December 31, 1997	Issued (Retired)	Balance December 31, 1998
<b>Enterprise Funds:</b>					
General Obligation Bonds:					
1974	Sewer System Improvement	2000	\$30,000	(\$10,000)	\$20,000
1990	Water System Improvement	2003	605,000	(85,000)	520,000
1998	Water System Improvement	2018	0	2,500,000	2,500,000
Total General Obligation Bonds			635,000	2,405,000	3,040,000
<b>Other Long-Term Obligations:</b>					
Landfill Closure and Postclosure Care			46,493	(14,893)	31,600
Total Enterprise Long-Term Debt					
Other Long-Term Obligations			\$681,493	\$2,390,107	\$3,071,600
<b>General Long-Term Debt:</b>					
General Obligation Bonds:					
1987	Recreation - Senior Center	2003	\$290,000	(\$50,000)	\$240,000
1997	Various Purpose Bonds	2017	2,500,000	(80,000)	2,420,000
Total General Obligation Bonds			2,790,000	(130,000)	2,660,000
Ohio Public Works Commission Loans:					
1993	Hanna Avenue Waterline	2013	172,427	(11,495)	160,932
1993	State Route 48 Waterline	2008	163,697	(13,480)	150,217
1994	Park Avenue Waterline	2009	109,326	(8,527)	100,799
1994	East Loveland Avenue	2014	285,037	(13,073)	271,964
1994	West Booster	2015	227,105	(10,819)	216,286
1995	Lever Water Tower	2016	591,105	(23,483)	567,622
1996	Maderia Road Waterline	2016	534,825	(28,148)	506,677
Total Ohio Public Works Commission Loans			2,083,522	(109,025)	1,974,497
Total General Long-Term Debt			4,873,522	(239,025)	4,634,497
<b>Other Long-Term Obligations:</b>					
Compensated Absences			371,090	57,083	428,173
Police Pension Accrued Liability			40,215	(451)	39,764
Total Other Long-Term Obligations			411,305	56,632	467,937
Total General Long-Term Debt and Other Long-Term Obligations			\$5,284,827	(\$182,393)	\$5,102,434

**NOTE 12 - LONG-TERM OBLIGATIONS (Continued)**

**A. Police and Firemen's Pension Fund**

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 1998 was \$78,567 in principal and interest payments through the year 2035. Only the principal amount due of \$39,764 is included in the General Long-Term Obligations Account Group.

**B. Principal and Interest Requirements**

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 1998, follows:

Years	General Obligation Bonds		OPWC Loans		Police Pension Accrued Liability	
	Principal	Interest	Principal	Interest	Principal	Interest
1999	\$300,000	\$296,048	\$111,123	\$38,673	\$471	\$1,685
2000	325,000	269,767	113,283	36,513	491	1,665
2001	335,000	251,330	115,508	34,289	511	1,644
2002	350,000	231,879	117,801	31,995	533	1,622
2003	355,000	211,742	120,163	29,635	556	1,599
2004-2008	1,100,000	878,225	629,682	110,152	3,161	7,615
2009-2013	1,380,000	598,142	535,885	51,437	3,899	6,874
2014-2018	1,555,000	220,614	231,052	22,968	4,812	5,961
2019-2035	0	0	0	0	25,330	10,138
Totals	<u>\$5,700,000</u>	<u>\$2,957,747</u>	<u>\$1,974,497</u>	<u>\$355,662</u>	<u>\$39,764</u>	<u>\$38,803</u>

**C. Defeased Debt**

In May 1982, the City defeased \$795,000 of Sewer Mortgage Revenue Bonds dated December 1, 1968. The principal balance of this issue is \$70,000 at December 31, 1998.

At the time of the defeasance, funds were deposited with the City's trustee, Star Bank. The principal and interest on the investments in this escrow fund are used solely to pay the principal and interest requirements on the original issue bonds as they come due. As of December 31, 1998, there were \$102,148 of interest and principal on deposit with Star Bank.

As the money on deposit with the trustee is adequate to service the defeased debt issue, the City is not required to service any portion of this debt directly. Accordingly, the 1968 Sewer Mortgage Revenue Bonds are not included in the long-term debt schedule or in the enterprise funds balance sheet at December 31, 1998. Similarly, as no obligation is recorded, neither are the funds held on deposit at Star Bank which will be used to service that obligation.

**NOTE 13 - CONTRIBUTED CAPITAL**

A schedule of changes in contributed capital is presented below:

	<u>Water</u>	<u>Sewer</u>	<u>Sanitation</u>	<u>Total</u>
Balance at Beginning of Year	\$2,650,581	\$67,247	\$0	\$2,717,828
Additions:				
Contributions from Outside Sources	<u>80,000</u>	<u>0</u>	<u>0</u>	<u>80,000</u>
Balance at Ending of Year	<u><u>\$2,730,581</u></u>	<u><u>\$67,247</u></u>	<u><u>\$0</u></u>	<u><u>\$2,797,828</u></u>

**NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Included in the services provided by the City financed primarily by user charges are water treatment and distribution, wastewater collection and treatment and refuse collection. The key financial information for these enterprise activities is as follows:

	<u>Water</u>	<u>Sanitation</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$1,366,570	\$731,974	\$1,280,696	\$3,379,240
Depreciation	151,291	397	58,215	209,903
Operating Income ( Loss )	\$538,286	\$15,479	\$18,413	572,178
Operating Grants	0	28,696	0	28,696
Operating Transfers Out	(393,010)	(39,100)	(10,700)	(442,810)
Net Income ( Loss )	57,895	5,075	8,432	71,402
Current Capital Contributions	80,000	0	0	80,000
Property, Plant and Equipment:				
Additions	1,062,220	0	145,476	1,207,696
Deletions	91,248	0	0	91,248
Assets	10,303,052	202,716	2,714,992	13,220,760
Net Working Capital	3,211,485	137,369	988,967	4,337,821
Bonds Payable	3,020,000	0	20,000	3,040,000
Landfill Closure Liability	0	31,600	0	31,600
Total Equity	7,047,274	108,545	2,651,429	9,807,248

**NOTE 15 - CONTINGENCIES**

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**NOTE 16 - INSURANCE AND RISK MANAGEMENT**

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. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**NOTE 17 - CONSTRUCTION COMMITMENTS**

As of December 31, 1998, the City had the following commitments with respect to capital projects:

<u>Capital Projects</u>	<u>Remaining Construction Commitment</u>
State Route 48 Waterline	\$321,180
West Loveland Ave. Improvement	998,060
White Pillar Project	1,348,315
Total	<u>\$2,667,555</u>

**NOTE 18 - SOLID WASTE LANDFILL POSTCLOSURE CARE COSTS**

The City owns a former landfill site which predates most modern regulatory and recordkeeping requirements. The exact date for commencement of waste placement activities is unknown, but waste placement activities ceased in the 1980's. The Ohio Environmental Protection Agency acting in accordance with applicable state and federal laws required the City to complete final closure of the site commencing in 1994. The approximate total cost of closure was \$351,779. State and federal laws require that the City monitor and maintain the site for at least five years after closure. The City has maintained the site for one year. The City estimates that the total postclosure liability associated with monitoring and maintaining the landfill site for the next five years is \$31,600. The estimated costs of postclosure care are subject to changes corresponding to the effects of inflation, revision of laws and other variables. Postclosure care costs are to be paid from the Sanitation and Environment Fund.

**CITY OF LOVELAND, OHIO**

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

**for the years ended December 31, 1998 and 1999**



Foxx & Company  
Certified Public Accountants

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

Council Members  
City of Loveland, Ohio

We have audited the general-purpose financial statements of the City of Loveland, Ohio, as of and for the years ended December 31, 1998 and 1999, and have issued our reports thereon dated June 30, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Loveland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 30, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the City of Loveland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 30, 2000.

This report is intended for the information of management and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Foxx & Company". The signature is written in dark ink and is centered on the page.

Cincinnati, Ohio  
June 30, 2000

***THE CITY OF LOVELAND, OHIO***

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HAMILTON, CLERMONT AND WARREN COUNTIES

GENERAL PURPOSE  
FINANCIAL STATEMENTS

FOR THE YEAR ENDED  
DECEMBER 31, 1999

Submitted by:  
Mr. William Taphorn  
Director of Finance

Prepared by:  
Donald J. Schonhardt &  
Associates, Inc.

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## CITY OF LOVELAND, OHIO HAMILTON, CLERMONT AND WARREN COUNTIES

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**Foxx & Company**  
Certified Public Accountants

## INDEPENDENT AUDITORS' REPORT

Council Members  
City of Loveland

We have audited the accompanying general-purpose financial statements of the City of Loveland, Ohio, as of and for the year ended December 31, 1999, as listed in the table of contents. These general-purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit.

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

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the City, as of December 31, 1999, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2000 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This 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.

*Foxx & Company*

Cincinnati, Ohio  
June 30, 2000

**THE CITY OF LOVELAND, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 1999**

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>		Totals (Memorandum Only)	
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
<b>Assets and Other Debits:</b>									
<b>Assets:</b>									
Cash and Cash Equivalents	\$0	\$160,606	\$17,106	\$26,233	\$200,505	\$0	\$0	\$0	\$404,450
Investments	0	1,939,143	0	418,621	2,232,390	0	0	0	4,590,154
Receivables (net of allowance for doubtful accounts):									
Taxes	1,126,110	995,325	0	0	0	0	0	0	2,121,435
Accounts	28,567	12,463	0	144	650,156	0	0	0	691,330
Interest	0	0	0	157,204	0	0	0	0	157,204
Special Assessments	0	0	9,386	72,650	0	0	0	0	82,036
Intergovernmental Receivables	61,799	49,780	0	0	0	0	0	0	111,579
Inventory of Supplies at Cost	700	16,350	0	0	29,592	0	0	0	46,642
Prepaid Items	7,504	6,649	0	660	3,666	0	0	0	18,479
<b>Restricted Assets:</b>									
Cash and Cash Equivalents	0	0	0	0	193,556	0	0	0	193,556
Cash with Fiscal Agent	0	0	3,677	0	0	5,384	0	0	9,061
Fixed Assets (net of accumulated depreciation)	0	0	0	0	10,272,127	0	13,508,789	0	23,780,916
Construction in Progress	0	0	0	0	0	0	72,169	0	72,169
<b>Other Debits:</b>									
Amount Available in Debt Service Fund	0	0	0	0	0	0	0	17,106	17,106
Amount to be Provided for General Long-Term Obligations	0	0	0	0	0	0	0	5,094,555	5,094,555
<b>Total Assets and Other Debits</b>	<b>\$1,224,680</b>	<b>\$3,180,316</b>	<b>\$30,169</b>	<b>\$675,512</b>	<b>\$13,581,992</b>	<b>\$5,384</b>	<b>\$13,580,958</b>	<b>\$5,111,661</b>	<b>\$37,390,672</b>

(Continued)

**THE CITY OF LOVELAND, OHIO**  
**COMBINED BALANCE SHEET**  
**ALL FUND TYPES AND ACCOUNT GROUPS**  
**DECEMBER 31, 1999**

	<i>Governmental</i>			<i>Proprietary</i>	<i>Fiduciary</i>	<i>Account</i>			Totals (Memorandum Only)
	<i>Fund Types</i>			<i>Fund Type</i>	<i>Fund Type</i>	<i>Groups</i>			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Enterprise Funds	Agency Fund	General Fixed Assets	General Long-Term Obligations	
<b>Liabilities, Equity and Other Credits:</b>									
<b>Liabilities:</b>									
Accounts Payable	\$74,039	\$37,667	\$0	\$3,966	\$62,385	\$0	\$0	\$0	\$178,057
Accrued Wages and Benefits	80,476	12,813	0	3,989	18,913	0	0	0	116,191
Due to Others	0	0	0	0	0	5,384	0	0	5,384
Matured Bonds and Interest Payable	0	0	3,677	0	0	0	0	0	3,677
Accrued Interest Payable	0	0	0	31,450	11,262	0	0	0	42,712
Deferred Revenue	683,253	991,980	9,386	88,443	0	0	0	0	1,773,062
General Obligation Notes Payable	0	0	0	2,550,000	0	0	0	0	2,550,000
Compensated Absences Payable	0	0	0	0	165,975	0	0	407,229	573,204
Ohio Public Works Commission Loans Payable	0	0	0	0	0	0	0	2,130,139	2,130,139
General Obligation Bonds Payable	0	0	0	0	2,865,000	0	0	2,535,000	5,400,000
Landfill Closure and Postclosure Care Payable	0	0	0	0	28,000	0	0	0	28,000
Police Pension Accrued Liability	0	0	0	0	0	0	0	39,293	39,293
<b>Total Liabilities</b>	<b>837,768</b>	<b>1,042,460</b>	<b>13,063</b>	<b>2,677,848</b>	<b>3,151,535</b>	<b>5,384</b>	<b>0</b>	<b>5,111,661</b>	<b>12,839,719</b>
<b>Equity and Other Credits:</b>									
Investment in General Fixed Assets	0	0	0	0	0	0	13,580,958	0	13,580,958
Contributed Capital	0	0	0	0	3,415,802	0	0	0	3,415,802
<b>Retained Earnings:</b>									
Unreserved	0	0	0	0	7,014,655	0	0	0	7,014,655
<b>Fund Balances:</b>									
Reserved for Encumbrances	0	7,500	0	19,002	0	0	0	0	26,502
Reserved for Supplies Inventory	700	16,350	0	0	0	0	0	0	17,050
Reserved for Prepaid Items	7,504	6,649	0	660	0	0	0	0	14,813
Reserved for Debt Service	0	0	17,106	0	0	0	0	0	17,106
<b>Unreserved:</b>									
Undesignated	378,708	2,107,357	0	(2,021,998)	0	0	0	0	464,067
<b>Total Equity and Other Credits</b>	<b>386,912</b>	<b>2,137,856</b>	<b>17,106</b>	<b>(2,002,336)</b>	<b>10,430,457</b>	<b>0</b>	<b>13,580,958</b>	<b>0</b>	<b>24,550,953</b>
<b>Total Liabilities, Equity and Other Credits</b>	<b>\$1,224,680</b>	<b>\$3,180,316</b>	<b>\$30,169</b>	<b>\$675,512</b>	<b>\$13,581,992</b>	<b>\$5,384</b>	<b>\$13,580,958</b>	<b>\$5,111,661</b>	<b>\$37,390,672</b>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<i>Governmental Fund Types</i>				Totals (Memorandum Only)
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	
<u>Revenues:</u>					
Taxes	\$692,753	\$3,083,610	\$0	\$3,550	\$3,779,913
Intergovernmental Revenues	900,978	667,805	0	510,587	2,079,370
Charges for Services	40,905	60,000	0	20,470	121,375
Licenses and Permits	114,513	37,309	0	41,646	193,468
Investment Earnings	0	(662)	0	342,372	341,710
Fines and Forfeitures	121,921	1,708	0	0	123,629
All Other Revenues	29,183	12,653	0	2,644	44,480
Total Revenues	<u>1,900,253</u>	<u>3,862,423</u>	<u>0</u>	<u>921,269</u>	<u>6,683,945</u>
<u>Expenditures:</u>					
Current:					
Security of Persons and Property	1,571,463	966,648	0	0	2,538,111
Public Health and Welfare Services	0	4,192	0	0	4,192
Leisure Time Activities	245,512	0	0	0	245,512
Community Environment	161,971	0	0	2,913	164,884
Transportation	0	655,839	0	0	655,839
General Government	885,231	542,330	0	10,861	1,438,422
Other Expenditures	0	0	0	8,692	8,692
Capital Outlay	0	0	0	1,315,845	1,315,845
Debt Service:					
Principal Retirement	0	0	243,663	0	243,663
Interest and Fiscal Charges	0	0	186,502	102,201	288,703
Total Expenditures	<u>2,864,177</u>	<u>2,169,009</u>	<u>430,165</u>	<u>1,440,512</u>	<u>6,903,863</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(963,924)	1,693,414	(430,165)	(519,243)	(219,918)
<u>Other Financing Sources (Uses):</u>					
Proceeds from Sale of Fixed Assets	0	121,001	0	0	121,001
Proceeds from Ohio Public Works Commission Loans	0	0	0	274,305	274,305
Operating Transfers In	1,181,620	25,000	430,165	510,816	2,147,601
Operating Transfers Out	(68,500)	(1,511,748)	0	(133,471)	(1,713,719)
Total Other Financing Sources (Uses)	<u>1,113,120</u>	<u>(1,365,747)</u>	<u>430,165</u>	<u>651,650</u>	<u>829,188</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	149,196	327,667	0	132,407	609,270
Fund Balance (Deficit) Beginning of Year	238,221	1,807,458	17,106	(2,134,743)	(71,958)
Increase (Decrease) in Inventory Reserve	(505)	2,731	0	0	2,226
Fund Balance (Deficit) End of Year	<u>\$386,912</u>	<u>\$2,137,856</u>	<u>\$17,106</u>	<u>(\$2,002,336)</u>	<u>\$539,538</u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>General Fund</u>			<u>Special Revenue Funds</u>		
	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
<u>Revenues:</u>						
Taxes	\$584,000	\$578,109	(\$5,891)	\$3,032,000	\$3,095,266	\$63,266
Intergovernmental Revenues	871,695	872,686	991	626,500	655,605	29,105
Charges for Services	40,000	40,935	935	65,000	65,000	0
Licenses and Permits	65,005	114,513	49,508	35,000	37,309	2,309
Investment Earnings	0	0	0	0	0	0
Fines and Forfeitures	154,000	122,168	(31,832)	2,000	1,913	(87)
All Other Revenues	1,000	616	(384)	0	190	190
Total Revenues	1,715,700	1,729,027	13,327	3,760,500	3,855,283	94,783
<u>Expenditures:</u>						
Current:						
Security of Persons and Property	1,556,000	1,554,177	1,823	1,197,000	1,007,251	189,749
Public Health and Welfare Services	0	0	0	5,000	4,192	808
Leisure Time Activities	245,512	245,512	0	0	0	0
Community Environment	149,700	163,763	(14,063)	0	0	0
Transportation	0	0	0	819,100	654,407	164,693
General Government	904,600	878,695	25,905	1,914,421	538,708	1,375,713
Other Expenditures	0	0	0	0	0	0
Capital Outlay	0	0	0	0	0	0
Debt Service:						
Principal Retirement	0	0	0	0	0	0
Interest and Fiscal Charges	0	0	0	0	0	0
Total Expenditures	2,855,812	2,842,147	13,665	3,935,521	2,204,558	1,730,963
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,140,112)	(1,113,120)	26,992	(175,021)	1,650,725	1,825,746
<u>Other Financing Sources (Uses):</u>						
Proceeds from Sale of Fixed Assets	0	0	0	121,000	121,001	1
Proceeds from General Obligation Notes	0	0	0	0	0	0
Proceeds from Ohio Public Works Commission Loans	0	0	0	0	0	0
Operating Transfers In	1,117,512	1,181,620	64,108	25,000	25,000	0
Operating Transfers Out	(68,500)	(68,500)	0	(1,616,579)	(1,511,748)	104,831
Total Other Financing Sources (Uses)	1,049,012	1,113,120	64,108	(1,470,579)	(1,365,747)	104,832
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(91,100)	0	91,100	(1,645,600)	284,978	1,930,578
Fund Balance at Beginning of Year	0	0	0	1,766,846	1,766,846	0
Prior Year Encumbrances	0	0	0	27,500	27,500	0
Fund Balance at End of Year	(\$91,100)	\$0	\$91,100	\$148,746	\$2,079,324	\$1,930,578

The notes to the general purpose financial statements are an integral part of this statement.



**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)**  
**ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

<i>Debt Service Funds</i>			<i>Capital Projects Funds</i>			<i>Totals (Memorandum Only)</i>		
Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)	Revised Budget	Actual	Variance: Favorable (Unfavorable)
\$0	\$0	\$0	\$3,800	\$3,550	(\$250)	\$3,619,800	\$3,676,925	\$57,125
0	0	0	575,992	510,587	(65,405)	2,074,187	2,038,878	(35,309)
0	0	0	8,000	20,470	12,470	113,000	126,405	13,405
0	0	0	38,000	41,646	3,646	138,005	193,468	55,463
0	0	0	300,000	323,875	23,875	300,000	323,875	23,875
0	0	0	0	0	0	156,000	124,081	(31,919)
0	0	0	2,500	2,500	0	3,500	3,306	(194)
0	0	0	928,292	902,628	(25,664)	6,404,492	6,486,938	82,446
0	0	0	0	0	0	2,753,000	2,561,428	191,572
0	0	0	0	0	0	5,000	4,192	808
0	0	0	0	0	0	245,512	245,512	0
0	0	0	25,000	2,913	22,087	174,700	166,676	8,024
0	0	0	0	0	0	819,100	654,407	164,693
0	0	0	10,100	9,893	207	2,829,121	1,427,296	1,401,825
0	0	0	13,098	8,692	4,406	13,098	8,692	4,406
0	0	0	2,093,268	1,337,375	755,893	2,093,268	1,337,375	755,893
243,663	243,663	0	2,650,000	2,650,000	0	2,893,663	2,893,663	0
189,011	186,502	2,509	102,006	102,006	0	291,017	288,508	2,509
432,674	430,165	2,509	4,893,472	4,110,879	782,593	12,117,479	9,587,749	2,529,730
(432,674)	(430,165)	2,509	(3,965,180)	(3,208,251)	756,929	(5,712,987)	(3,100,811)	2,612,176
0	0	0	0	0	0	121,000	121,001	1
0	0	0	2,554,300	2,550,000	(4,300)	2,554,300	2,550,000	(4,300)
0	0	0	274,305	274,305	0	274,305	274,305	0
439,680	430,165	(9,515)	866,969	510,816	(356,153)	2,449,161	2,147,601	(301,560)
0	0	0	(133,500)	(133,471)	29	(1,818,579)	(1,713,719)	104,860
439,680	430,165	(9,515)	3,562,074	3,201,650	(360,424)	3,580,187	3,379,188	(200,999)
7,006	0	(7,006)	(403,106)	(6,601)	396,505	(2,132,800)	278,377	2,411,177
17,106	17,106	0	418,160	418,160	0	2,202,112	2,202,112	0
0	0	0	11,502	11,502	0	39,002	39,002	0
\$24,112	\$17,106	(\$7,006)	\$26,556	\$423,061	\$396,505	\$108,314	\$2,519,491	\$2,411,177

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN RETAINED EARNINGS**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Enterprise Funds</u>
<u>Operating Revenues:</u>	
Charges for Services	\$3,286,075
Total Operating Revenues	<u>3,286,075</u>
<u>Operating Expenses:</u>	
Personal Services	526,545
Materials and Supplies	82,852
Contractual Services	1,760,457
Utilities	111,084
Depreciation	244,871
Other Operating Expenses	13,151
Total Operating Expenses	<u>2,738,960</u>
Operating Income	547,115
<u>Nonoperating Revenues (Expenses):</u>	
Investment Earnings	11,429
Interest and Fiscal Charges	(160,860)
Nonoperating Revenues	64,376
Nonoperating Expenses	(29,320)
Total Nonoperating Revenues (Expenses)	<u>(114,375)</u>
Income Before Operating Transfers	432,740
<u>Operating Transfers:</u>	
Operating Transfers Out	(433,882)
Total Operating Transfers	<u>(433,882)</u>
Net Loss	(1,142)
Restated Retained Earnings at Beginning of Year	<u>7,015,797</u>
Retained Earnings at End of Year	<u><u>\$7,014,655</u></u>

The notes to the general purpose financial statements are an integral part of this statement.

**THE CITY OF LOVELAND, OHIO**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND TYPE**  
**FOR THE YEAR ENDED DECEMBER 31, 1999**

	<u>Enterprise Funds</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Customers	\$3,336,962
Cash Payments for Goods and Services	(1,998,058)
Cash Payments to Employees	(456,880)
Net Cash Provided by Operating Activities	<u>882,024</u>
<u>Cash Flows from Noncapital Financing Activities:</u>	
Transfers Out to Other Funds	(433,882)
Net Cash Used for Noncapital Financing Activities	<u>(433,882)</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>	
Acquisition and Construction of Assets	(1,426,648)
Landfill Postclosure Costs	(3,600)
Principal Paid on General Obligation Bonds	(175,000)
Interest Paid on All Debt	(152,826)
Net Cash Used for Capital and Related Financing Activities	<u>(1,758,074)</u>
<u>Cash Flows from Investing Activities:</u>	
Receipt of Interest	25,130
Purchase of Investments	(854,796)
Net Cash Used for Investing Activities	<u>(829,666)</u>
Net Decrease in Cash and Cash Equivalents	(2,139,598)
Cash and Cash Equivalents at Beginning of Year	2,533,659
Cash and Cash Equivalents at End of Year	<u>\$394,061</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income	\$547,115
Adjustments to Reconcile Operating Income to	
Net Cash Provided by Operating Activities:	
Depreciation Expense	244,871
Miscellaneous Nonoperating Revenue	64,376
Miscellaneous Nonoperating Expense	(29,320)
Changes to Assets and Liabilities:	
Increase in Accounts Receivable	(13,489)
Increase in Inventory	(6,795)
Decrease in Prepaid Items	2,326
Increase in Accounts Payable	3,275
Decrease in Accrued Wages and Benefits	(6,987)
Increase in Compensated Absences	76,652
Total Adjustments	<u>334,909</u>
Net Cash Provided by Operating Activities	<u>\$882,024</u>

Schedule of Noncash Investing, Capital and Financing Activities:

During 1999, the Water Fund received \$617,974 of fixed assets from other funds. In addition, the fair value of investments decreased by \$10,147 and \$4,732 in the Water and Sewer Funds, respectively.

**THE CITY OF LOVELAND, OHIO**  
**NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS**  
**DECEMBER 31, 1999**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Loveland, Ohio (the "City") is a home-rule municipal corporation created under the laws of the State of Ohio. The City operates under its own Charter. The current Charter, which provides for a Council-Manager form of government, was adopted on July 25, 1961.

**A. Reporting Entity**

The accompanying general purpose financial statements comply with the provisions of the Governmental Accounting Standards Board (the "GASB") Statement No. 14, *"The Financial Reporting Entity,"* in that the financial statements include all organizations, activities, functions and component units for which the City (the primary government) is financially accountable. Financial accountability is defined as the appointment of a voting majority of a legally separate organization's governing body and either (1) the City's ability to impose its will over the organization, or (2) the potential that the organization will provide a financial benefit to or impose a financial burden on the City.

Based on the foregoing, the City's financial reporting entity has no component units but includes all funds, account groups, agencies, boards and commissions that are part of the primary government, which include the following services: police protection, parks and recreation, planning, zoning, street maintenance and other governmental services. In addition, the City provides refuse collection services (on a contractual basis) and owns and operates a water treatment and distribution system and a wastewater treatment and collection system (which is operated by the Metropolitan Sewer District), each of which is reported as an enterprise fund.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of its significant accounting policies:

**B. Basis of Presentation - Fund Accounting**

The accounting system is organized and operated on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures (expenses). The various funds are summarized by type in the general purpose financial statements. The following fund types and account groups are used by the City:

***Governmental Funds***

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation - Fund Accounting** (Continued)

General Fund - This fund is used to account for all financial resources except those accounted for in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio and the limitations of the City Charter.

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

Debt Service Funds - These funds are used for the accumulation of resources for the payment of general and special assessment long-term debt principal and interest.

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

***Proprietary Funds***

The proprietary funds are accounted for on an "economic resources" measurement focus. This measurement focus provides that all assets and liabilities associated with the operation of the proprietary fund is included on the balance sheet. Fund equity (i.e., net assets) is segregated into contributed capital and retained earnings components. The proprietary fund operating statement presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

***Fiduciary Funds***

Agency Funds - These funds are used to account for assets held by a government unit as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and 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 - This account group is established to account for fixed assets of the City other than those accounted for in the proprietary funds.

General Long-Term Obligations Account Group - This account group is established to account for all long-term debt and other long-term liabilities of the City except those accounted for in the proprietary funds.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**C. Basis of Accounting**

Basis of accounting represents the methodology utilized in the recognition of revenues and expenditures or expenses in the accounts and reported in the financial statements, and relates to the timing of the measurements made. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The modified accrual basis of accounting is followed by the governmental funds and agency funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. The term "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period, which for the City is 60 days after year end. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt which is recognized when due.

Revenues considered susceptible to accrual at year end include income taxes withheld by employers, interest on investments and state levied locally shared taxes (including motor vehicle license fees and local government assistance). Other revenues, including licenses, permits, certain charges for services, income taxes other than those withheld by employers and miscellaneous revenues, are recorded as revenues when received in cash because generally these revenues are not measurable until received.

Special assessment installments and related accrued interest, which are measurable but not available at December 31, are recorded as deferred revenue. Property taxes which are measurable at December 31, 1999 but which are not intended to finance 1999 operations and delinquent property taxes, whose availability is indeterminate, are recorded as deferred revenue as further described in Note 5.

The accrual basis of accounting is utilized for reporting purposes by the proprietary funds. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Pursuant to GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," the City follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

**D. Budgetary Process**

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources and the appropriation ordinance, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriation ordinance are subject to amendment throughout the year.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process** (Continued)

All funds other than agency funds are legally required to be budgeted and appropriated; however, only governmental funds are required to be reported. The primary level of budgetary control is at the object level within each department. Budgetary modifications may only be made by ordinance of the City Council.

1. Tax Budget

By July 15, the Manager submits an annual tax budget for the following fiscal year to City Council for consideration and passage. The adopted budget is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission reviews estimated revenue and determines if the budget substantiates a need to levy all or part of previously authorized taxes. The Budget Commission then certifies its actions to the City by September 1 of each year. As part of the certification process, the City receives an official certificate of estimated resources stating the projected receipts by fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year do not exceed the amount available as stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriations measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered fund balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or if actual receipts exceed current estimates. The amounts reported on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 1999.

3. Appropriations

A temporary appropriation ordinance to control expenditures may be passed on or about January 1 of each year for the period January 1 through March 31. An annual appropriation ordinance must be passed by April 1 of each year for the period January 1 through December 31. The appropriation ordinance establishes spending controls at the fund, department and object level. The appropriation ordinance may be amended during the year as additional information becomes available, provided that total fund appropriations do not exceed the current estimated resources as certified. The allocation of appropriations among departments and objects within a fund may be modified during the year by an ordinance of City Council. The budgetary figures which appear in the "Combined Statement of Revenues, Expenditures, and Changes in Fund Balances--Budget and Actual--All Governmental Fund Types" are provided on the budgetary basis to provide a comparison of actual results to the final budget, including all amendments and modifications.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Budgetary Process (Continued)**

4. Encumbrances

As part of formal budgetary control, purchase orders, contracts and other commitments for expenditures are encumbered and recorded as the equivalent of expenditures (budget basis) in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. However, on the GAAP basis of accounting, encumbrances do not constitute expenditures or liabilities and are reported as reservations of fund balances for governmental funds in the accompanying general purpose financial statements.

5. Lapsing of Appropriations

At the close of each fiscal 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 subsequent fiscal year and need not be reappropriated.

6. Budgetary Basis of Accounting

The City's budgetary process accounts for the City's transactions on a basis other than generally accepted accounting principles (GAAP). The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenues and expenditures are recognized on the cash basis. Utilizing the cash basis, revenues are recorded when received in cash and expenditures when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting. Encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to reservation of fund balance (GAAP basis).

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****D. Budgetary Process (Continued)****6. Budgetary Basis of Accounting (Continued)**

The following table summarizes the adjustments necessary to reconcile the GAAP basis statements to the budgetary cash basis statements for the governmental funds:

	Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses			
	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
GAAP Basis (as reported)	\$149,196	\$327,667	\$0	\$132,407
Increase (Decrease):				
Accrued Revenues at December 31, 1999 received during 2000	(533,223)	(78,513)	0	(144,346)
Accrued Revenues at December 31, 1998 received during 1999	361,997	71,373	0	125,705
Accrued Expenditures at December 31, 1999 paid during 2000	154,515	50,480	0	39,405
Accrued Expenditures at December 31, 1998 paid during 1999	(129,499)	(77,760)	0	(41,010)
1998 Prepays for 1999	4,518	5,880	0	900
1999 Prepays for 2000	(7,504)	(6,649)	0	(660)
Note Proceeds	0	0	0	2,550,000
Note Retirement	0	0	0	(2,650,000)
Outstanding Encumbrances	0	(7,500)	0	(19,002)
Budget Basis	\$0	\$284,978	\$0	(\$6,601)

**E. Cash and Investments**

Cash and cash equivalents include amounts in demand deposits as well as the State Treasury Asset Reserve (STAR Ohio). STAR Ohio is a very liquid investment and is reported as a cash equivalent in the general purpose financial statements.

The City pools its cash for investment and resource management purposes. Each fund's equity in pooled cash and investments represents the balance on hand as if each fund maintained its own cash and investment account. For purposes of the statement of cash flows, the proprietary funds consider its share of equity in STAR Ohio to be cash equivalents. See Note 4, "Cash, Cash Equivalents and Investments."

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. Investments**

Investment procedures and interest allocations are restricted by provisions of the Ohio Constitution and the Ohio Revised Code. In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the City reports its investments at fair value, except for nonparticipating investment contracts (certificates of deposit) which are reported at cost.

The City has invested funds in the STAR Ohio during 1999. STAR Ohio is an investment pool managed by the 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 share price which is the price the investment could be sold for on December 31, 1999. See Note 4, "Cash, Cash Equivalents and Investments".

**G. Inventory**

Inventory is stated at cost (first in, first out) in the governmental funds, and at the lower of cost or market in the proprietary funds. The costs of inventory items are recorded as expenditures in the governmental and expendable trust funds when purchased and as expenses in the proprietary funds when used.

**H. Fixed Assets and Depreciation**

The accounting and reporting treatment applied to fixed assets is determined by the ultimate use:

1. Property, Plant and Equipment - General Governmental Purposes

Fixed assets acquired or constructed for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets not purchased in recent years) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair market value at the date received.

Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City; therefore, the purpose of stewardship for capital expenditures can be satisfied without recording these assets.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**H. Fixed Assets and Depreciation (Continued)**

**1. Property, Plant and Equipment - General Governmental Purposes (Continued)**

General fixed asset values were initially determined at December 31, 1988 by identifying historical costs when such information was available. In cases where information supporting original cost was not obtainable, estimated historical costs were developed. The estimated cost for certain fixed assets was arrived at by indexing estimated current costs back to the estimated year of acquisition.

The City has elected not to record depreciation in the General Fixed Assets Account Group.

**2. Property, Plant and Equipment - Proprietary Funds**

Property, plant and equipment (including water and sewer lines) acquired by the proprietary funds are stated at estimated historical cost. Estimated historical costs for water and sewer lines were derived by establishing a current cost for construction and indexing this cost back to the estimated date of original construction. Contributed fixed assets are recorded at fair market value at the date received.

Depreciation has been provided using the straight-line method over the following estimated useful lives:

Description	Estimated Lives (Years)
Buildings	15 - 60
Improvements Other Than Buildings (Utility Lines)	50
Machinery, Equipment, Furniture and Fixtures	3 - 10

**I. Long-Term Obligations**

Long-term liabilities are being repaid from the following funds:

Obligation	Fund
General Obligation Bonds	General Bond Retirement Fund Water Fund Sewer Fund
Ohio Public Works Commission Loans	General Bond Retirement Fund
Compensated Absences	General Fund Water Fund Sewer Fund Sanitation Fund
Police and Fire Pension Accrued Liability	General Fund

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**J. Compensated Absences**

In accordance with GASB Statement No. 16, "Accounting for Compensated Absences," vacation and compensatory time are accrued as liabilities when an employee's right to receive compensation is attributable to services already rendered and it is probable that the employee will be compensated through paid time off or some other means, such as cash payments at termination or retirement. Leave time that has been earned but is unavailable for use as paid time off or as some other form of compensation because an employee has not met the minimum service time requirement is accrued to the extent that it is considered probable that the conditions for compensation will be met in the future.

Sick leave is accrued using the vesting method, whereby the liability is recorded on the basis of leave accumulated by employees eligible to receive termination payments as of the balance sheet date, and on leave balances accumulated by other employees expected to become eligible to receive such payments in the future.

For governmental funds, the portion of unpaid compensated absences expected to be paid using expendable, available resources is reported as an expenditure in the fund from which the individual earning the leave is paid, and a corresponding liability is reflected in the account "Compensated Absences Payable." The long-term portion of the liability is reported in the General Long-Term Obligations Account Group.

Compensated absences are expensed in the water, sewer, and refuse collection enterprise funds when earned, and the related liability is reported within the fund.

**K. Pensions**

The provision for pension costs is recorded when the related payroll is accrued and the obligation is incurred.

**L. Interfund Transactions**

During the course of normal operations, the City has numerous transactions between funds. Interfund transactions are generally classified as follows:

- Operating transfers are reported as "Other Financing Sources and Uses" in the governmental funds, as "Operating Transfers In" by the recipient fund, and "Operating Transfers Out" by the disbursing fund.
- Residual Equity Transfers are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from the fund equity balance. The City did not perform any residual equity transfers in 1999.

Transactions that would be treated as revenues and expenditures if the transactions involved organizations external to the City are similarly treated when involving other funds of the City. The City also advances cash from one fund to another as necessary to meet current obligations.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**M. Reservations of Fund Balance**

Reserves indicate that a portion of fund balance is not available for expenditure or is legally segregated for a specific future use. Fund balances are reserved for prepaid items, supplies inventory, debt service, and encumbered amounts that have not been accrued at year end.

**N. Total Columns on Combined Financial Statements - Overview**

Total columns on the "Combined Financial Statements - Overview" are captioned "Memorandum Only" to indicate they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**O. Restricted Assets**

Certain assets are classified as restricted cash and cash equivalents and cash with fiscal agents on the balance sheet because these funds are not available for general operating purposes.

**NOTE 2 - PRIOR PERIOD ADJUSTMENTS**

During fiscal year 1999, the City had a physical inventory taken on its fixed assets which resulted in a restatement. As a result of the physical inventory taken during fiscal year 1999, the General Fixed Assets Account Group was overstated by \$3,765. The General Fixed Assets Account Group balance at January 1, 1999 has been restated. The balance decreased from \$13,527,184 to \$13,523,419.

The physical inventory taken during fiscal year 1999 also resulted in an increase in the amount of fixed assets reported in the enterprise funds which required a restatement to the beginning retained earnings in the enterprise funds as of January 1, 1999 as follows:

<u>Fund Type</u>	<u>Retained Earnings as Reported 12/31/1998</u>	<u>Adjustment Increase/ (Decrease)</u>	<u>Retained Earnings as Restated 01/01/1999</u>
Enterprise	\$7,009,420	\$6,377	\$7,015,797

**NOTE 3 - COMPLIANCE AND ACCOUNTABILITY**

**A. Fund Deficits**

The fund deficit at December 31, 1999 of \$2,298,081 in the Special Projects Fund (capital projects fund) arises from the recording of notes payable within the fund. The deficit does not exist under the cash basis of accounting. The General Fund provides operating transfers when cash is required, not when accruals occur.

**B. Excess of Expenditures Over Appropriations**

For the year ended December 31, 1999, expenditures exceeded appropriations at the object level (i.e., the legal level of budgetary control) as follows:

Fund	Excess
General Fund:	
Community Environment	\$14,063

The excess expenditures were funded from available fund balances.

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS**

Statutes require the classification of funds held by the City into three categories.

Category 1 consists of "active" funds - those funds required to be kept in "cash" or "near cash" status for immediate use by the City. Such funds must be maintained either as cash in the City Treasury or in depository accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts.

Category 2 consists of "inactive" funds - those funds not required for use within the current two year period of designation of depositories. Inactive funds may be deposited or invested only as certificates of deposit maturing no later than the end of the current period of designation of depositories.

Category 3 consists of "interim" funds - those funds not needed for immediate use but needed before the end of the current period of designation of depositories. Interim funds may be invested or deposited in the following securities:

- 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 or interest by the United States;

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

- 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;
- 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 two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
- Interim deposits in eligible institutions applying for interim funds;
- Bonds and other obligations of the State of Ohio;
- No-load money market mutual funds consisting exclusively of obligations described in the first two bullets 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
- The State Treasury Asset Reserve of Ohio (STAR Ohio).

Ohio Law requires that deposits be placed in eligible banks or savings and loan associations located in Ohio. Any public depository in which the City places deposits must pledge as collateral eligible securities of aggregate market value equal to the excess of deposits not insured by the Federal Deposit Insurance Corporation (FDIC). The securities pledged as collateral are pledged to a pool for each individual financial institution in amounts equal to at least 110% of the carrying value of all public deposits held by each institution. Obligations that may be pledged as collateral are limited to obligations of the United States and its agencies and obligations of any state, county, municipal corporation or other legally constituted authority of any other state, or any instrumentality of such county, municipal corporation or other authority. Based upon criteria described in GASB Statement No. 3 "*Deposits With Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements*," collateral held in single financial collateral pools with securities being held by the pledging financial institution's agent in the pool's name are classified as Category 3.

The GASB has established risk categories for deposits and investments as follows:

*Deposits:*

- Category 1 Insured or collateralized with securities held by the City or by its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

*Investments:*

- Category 1 Insured or registered, with securities held by the City or its agent in the City's name.
- Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- Category 3 Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

**A. Deposits**

At year end the carrying amount of the City's deposits was \$187,737 and the bank balance was \$574,840. Federal depository insurance covered \$300,000 of the deposits and bank balance. All remaining deposits were classed as Category 3.

**B. Investments**

The City's investments at December 31, 1999 are summarized below:

<u>Categorized Investments</u>	<u>Category 1</u>	<u>Fair Value</u>
U.S. Government Securities	\$3,377,247	\$3,377,247
United States Treasury Notes	912,907	912,907
Total Categorized	4,290,154	4,290,154
 <u>Non-Categorized Investments</u>		
STAR Ohio	N/A	710,269
Total Investments	\$4,290,154	\$5,000,423

**C. Reconciliation of Cash, Cash Equivalents and Investments**

The classification of cash, cash equivalents and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. STAR Ohio is treated as cash equivalents. The classification of cash and cash equivalents (deposits) for purposes of this note are based on criteria set forth in GASB Statement No. 3.

A reconciliation between classifications of cash and investments on the combined financial statements and the classifications per items A and B of this note are as follows:

	<u>Cash and Cash Equivalents *</u>	<u>Investments</u>
Per Combined Balance Sheet	\$598,006	\$4,590,154
Certificates of Deposit		
(with maturities of more than 3 months)	300,000	(300,000)
Investments:		
STAR Ohio	(710,269)	710,269
Per GASB Statement No. 3	\$187,737	\$5,000,423

\* Does not include Cash with Fiscal Agent of \$9,061.



**NOTE 4 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)**

**D. Cash with Fiscal Agent**

Cash with Fiscal Agent includes funds on deposit with the Mayor's Court and a bond and coupon account, all of which are classified as Category 3.

**NOTE 5 - TAXES**

**A. Property Taxes**

Property taxes include amounts levied against all real estate and public utility property, and tangible personal property used in business and located in the City. Real property taxes (other than public utility) collected during 1999 were levied after October 1, 1998 on assessed values as of January 1, 1998, the lien date. Assessed values are established by the County Auditor at 35% of appraised market value. All property is required to be revalued every six years. The last revaluation was completed for tax year 1996 for Clermont County, 1994 for Warren County, and 1993 for Hamilton County. Real property taxes are payable annually or semi-annually. The first payment is due January 20; the remainder is payable by June 20.

Taxes collected from tangible personal property (other than public utility) in one calendar year are levied in the prior calendar year on assessed values during and at the close of the most recent fiscal year of the taxpayer that ended on or before March 31 of that calendar year, and at the tax rates determined in the preceding year. Tangible personal property used in business (except for public utilities) is assessed for ad valorem taxation purposes at 25%. Amounts paid by multi-county taxpayers are due September 20 of the year assessed. Single county taxpayers may pay annually or semi-annually: the first payment is due April 30; the remainder is payable by September 20.

Public utility real and tangible personal property taxes collected in one calendar year are levied in the preceding calendar year on assessed values determined as of December 31 of the second year preceding the tax collection year, the lien date. Certain public utility tangible personal property is currently assessed at 100% of its true value. Public utility property taxes are payable on the same dates as real property taxes described previously.

The County Treasurers collect property taxes on behalf of all taxing districts in the counties including the City of Loveland. The County Auditors periodically remit to the City its portion of the taxes collected.

**NOTE 5 - TAXES (Continued)**

**A. Property Taxes (Continued)**

The assessed values upon which the 1999 property tax receipts were based were as follows:

	County		
	Hamilton	Clermont	Warren
Real Property:			
Residential/Agricultural	\$141,425,830	\$20,867,350	\$3,550,090
Personal Property:			
Tangible Personal Property	15,349,110	1,417,460	41,220
Public Utility Personal Property	7,022,180	2,193,430	159,220
Total Assessed Value	<u>\$163,797,120</u>	<u>\$24,478,240</u>	<u>\$3,750,530</u>
Tax Rate/Assessed Value	\$10.00/\$1,000	\$10.00/\$1,000	\$9.72/\$1,000

**B. Income Tax**

The City levies a tax of 1% on all salaries, wages, commissions and other compensation and on net profits earned within the City as well as on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually.

**NOTE 6 - RECEIVABLES**

Receivables at December 31, 1999 consisted of taxes, interest, accounts receivable, special assessments and intergovernmental receivables arising from shared revenues.

**NOTE 7 - OPERATING TRANSFERS**

Following is a summary of operating transfers in and out for all funds for 1999:

Fund	Transfer In	Transfer Out
General Fund	\$1,181,620	\$68,500
Special Revenue Funds:		
Fire Protection Fund	0	18,000
Income Tax Fund	25,000	1,420,148
Paramedic Fund	0	73,600
Total Special Revenue Funds	25,000	1,511,748
Debt Service Fund:		
General Bond Fund	430,165	0
Capital Projects Funds:		
Issue II Projects Fund	397,069	0
Recreation Capital Improvement Fund	113,747	133,471
Total Capital Projects Funds	510,816	133,471
Enterprise Funds:		
Water Fund	0	369,482
Sewer Fund	0	13,600
Sanitation Fund	0	50,800
Total Enterprise Funds	0	433,882
Totals	<u>\$2,147,601</u>	<u>\$2,147,601</u>

**NOTE 8 - FIXED ASSETS**

**A. General Fixed Assets**

Summary by category of changes in general fixed assets:

Category	Restated December 31, 1998	Additions	Deletions	December 31, 1999
Land	\$5,561,963	\$68,000	\$0	\$5,629,963
Buildings and Improvements	3,765,044	4,525	0	3,769,569
Improvements other than Buildings	1,220,397	0	0	1,220,397
Machinery and Equipment	2,903,846	155,311	(170,297)	2,888,860
Construction In Progress	72,169	0	0	72,169
Totals	<u>\$13,523,419</u>	<u>\$227,836</u>	<u>(\$170,297)</u>	<u>\$13,580,958</u>

**NOTE 8 - FIXED ASSETS** (Continued)**B. Proprietary Fixed Assets**

Summary by Category at December 31, 1999:

<u>Category</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Book Value</u>
Land	\$254,907	\$0	\$254,907
Buildings and Improvements	1,446,273	(776,993)	669,280
Utility Structures in Services	12,113,640	(2,841,764)	9,271,876
Machinery and Equipment	178,588	(102,524)	76,064
Property, Plant and Equipment	<u>\$13,993,408</u>	<u>(\$3,721,281)</u>	<u>\$10,272,127</u>

**NOTE 9 – DEFINED BENEFIT PENSION PLANS**

All of the City's full-time employees participate in one of two separate retirement systems which are cost-sharing multiple employer defined benefit pension plans.

**A. Public Employees Retirement System (the "PERS of Ohio")**

The following information was provided by the PERS of Ohio to assist the City in complying with GASB Statement No. 27, "Accounting for Pensions by State and Local Government Employers."

All employees of the City, except full-time uniformed police officers and full-time firefighters, participate in the PERS of Ohio, a cost-sharing multiple employer defined benefit pension plan. The PERS of Ohio provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Chapter 145 of the Ohio Revised Code provides statutory authority to establish and amend benefits. The Public Employees Retirement System of Ohio issues a stand-alone financial report that includes financial statements and required supplementary information for the PERS of Ohio. Interested parties may obtain a copy by making a written request to 277 East Town Street, Columbus, Ohio 43215-4642 or by calling (614) 466-2085 or 1-800-222-7377.

The Ohio Revised Code provides statutory authority for employee and employer contributions. The employee contribution rate is 8.5%. The 1999 employer contribution rate for local government employer units was 13.55%, of covered payroll, 9.35% to fund the pension and 4.2% to fund health care. The contribution requirements of plan members and the City are established and may be amended by the Public Employees Retirement Board. The City's contributions to the PERS of Ohio for the years ending December 31, 1999, 1998 and 1997 were \$169,235, \$156,902 and \$144,688, respectively, which were equal to the required contributions for each year.

**NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Public Employees Retirement System (the “PERS of Ohio”) (Continued)**

The PERS of Ohio provides postemployment health care benefits to age and service retirants with ten or more years of qualifying Ohio service credit and to primary survivor recipients of such retirants. Health care coverage for disability recipients is also available. A portion of each employer's contribution to the PERS of Ohio is set aside for the funding of post retirement health care. The Ohio Revised Code provides statutory authority requiring public employers to fund postemployment health care through their contributions to the PERS of Ohio. The portion of the 1999 employer contribution rate (identified above) that was used to fund health care for the year 1999 was 4.2% of covered payroll which amounted to \$52,457.

Other Postemployment Benefits (OPEB) are financed through employer contributions and investment earnings thereon. Funding and accounting were on a pay-as-you-go basis. The contributions allocated to retiree health care, along with investment income on allocated assets and periodic adjustments in health care provisions are expected to be sufficient to sustain the program indefinitely. Expenditures for other postemployment benefits during 1999 were \$523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were \$9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999 was 118,062.

During 1997, the Retirement Board adopted a new calculation method for determining employer contributions applied to OPEB. Under the new method, effective January 1, 1998, employer contributions, equal to 4.2% of member covered payroll, are used to fund health care expenses. Under the prior method, accrued liabilities and normal cost rates were determined for retiree health care coverage.

**B. Ohio Police and Fire Pension Fund (the “OP&F Fund”)**

All City full-time police officers participate in the OP&F Fund, a cost-sharing multiple-employer defined benefit pension plan. The OP&F Fund 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 are codified in Chapter 742 of the Ohio Revised Code. The Ohio Police and Fire Pension Fund issues a stand-alone financial report that includes financial statements and required supplementary information for the OP&F Fund. Interested parties may obtain a copy by making a written request to 140 East Town Street, Columbus, Ohio 43215-5164 or by calling (614) 228-2975.

Plan members are required to contribute 10.0% of their annual covered salary, while employers are required to contribute 19.5% for police officers. The City's contributions to the OP&F Fund for the years ending December 31, 1999, 1998 and 1997 were \$153,000, \$144,630 and \$141,124 for police which were equal to the required contributions for each year.

**NOTE 9 – DEFINED BENEFIT PENSION PLANS (Continued)**

**B. Ohio Police and Fire Pension Fund (the “OP&F Fund”) (Continued)**

The OP&F Fund provides postemployment health care coverage to any person who received 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 on a full-time or two-thirds basis. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F Fund shall be included in the employer's contribution rate. The Ohio Revised Code also provides statutory authority allowing the Fund's Board of Trustees to provide postemployment health care coverage to all eligible individuals from the employer's contributions to the OP&F Fund.

The portion of the 1999 covered payroll that was used to fund postemployment health care benefits was \$54,923 representing 7.00% of covered payroll for police. Health care funding and accounting was on a pay-as-you-go basis. 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. As of December 31, 1998, the date of the last actuarial evaluation available, the number of participants eligible to receive health care benefits was 11,424 for police. The OP&F Fund does not provide separate data on the funded status and funding progress of postemployment health care benefits. The Fund's total health care expenses for the year ended December 31, 1998 were \$78,596,790, which was net of member contributions of \$5,331,515.

**NOTE 10 – COMPENSATED ABSENCES**

All full-time City employees earn sick leave at the rate of 10 hours per calendar month of active service, up to a limit of 1,424 hours. Upon retirement from the City any employee, with 15 years of active service, receives one hour of monetary compensation for every four hours of unused sick leave, making the maximum payout 356 hours. The monetary compensation is the hourly rate of compensation of the employee at the time of retirement.

All full-time City employees earn vacation at varying rates based upon length of service. An employee's may carry over up to one year of vacation credit plus six days to the next succeeding year. Upon separation from the City, the employee (or his estate) is paid for his accumulated unused vacation leave balance, which is not to exceed the carryover for one year.

The City provides a liability for accumulated unpaid vacation and sick leave benefits when earned by employees. Accrued employee benefits for Governmental Funds not currently due and payable at year end are recorded in the General Long-Term Obligations Account Group. The amount decreased \$20,944 from a beginning year balance of \$428,173 to a year end balance of \$407,229.

**NOTE 10 – COMPENSATED ABSENCES (Continued)**

At December 31, 1999 the total accumulated unpaid sick leave time recorded in the General Long-Term Obligations Account Group was as follows:

	<u>Hours</u>	<u>Amount</u>
Sick Leave	22,976	\$351,947
Vacation	<u>4,251</u>	<u>55,282</u>
Total	<u><u>27,227</u></u>	<u><u>\$407,229</u></u>

Compensated absences attributable to the Enterprise Funds of \$165,975 have been recorded within the Enterprise Funds and are not included in the above figures.

**NOTE 11 - NOTES PAYABLE**

The Ohio Revised Code provides that notes and renewal notes issued in anticipation of the issuance of general obligation bonds may be issued and outstanding from time to time up to a maximum period of 20 years from the date of issuance of the original notes. The maximum maturity for notes anticipating general obligation bonds payable from special assessments is five years. Any period in excess of five years must be deducted from the permitted maximum maturity of the bonds anticipated, and portions of the principal amount of notes outstanding for more than five years must be retired in amounts at least equal to and payable no later than those principal maturities required if the bonds had been issued at the expiration of the initial five year period. Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or from available funds of the City or a combination of these sources.

The City intends to retire its notes by the issuance of one year renewal notes with a portion of the principal being retired in accordance with the above provisions.

	<u>Balance January 1, 1999</u>	<u>Issued (Retired)</u>	<u>Balance December 31, 1999</u>
Capital Projects Funds Notes Payable:			
3.86% Real Estate Bond Anticipation Note	\$2,650,000	(\$2,650,000)	\$0
4.00% Real Estate Bond Anticipation Note	0	2,550,000	2,550,000
Total Notes Payable	<u><u>\$2,650,000</u></u>	<u><u>(\$100,000)</u></u>	<u><u>\$2,550,000</u></u>

**NOTE 12 - LONG-TERM OBLIGATIONS**

Long-term debt and other long-term obligations of the City at December 31, 1999 were as follows:

				Balance		Balance
				December 31,	Issued	December 31,
				1998	(Retired)	1999
<b>Enterprise Funds:</b>						
General Obligation Bonds:						
1974	Sewer System Improvement	2000	\$20,000	(\$10,000)	\$10,000	
1990	Water System Improvement	2003	520,000	(90,000)	430,000	
1998	Water System Improvement	2018	2,500,000	(75,000)	2,425,000	
Total General Obligation Bonds			3,040,000	(175,000)	2,865,000	
<b>Other Long-Term Obligations:</b>						
Landfill Closure and Postclosure Care			31,600	(3,600)	28,000	
Total Enterprise Long-Term Debt						
Other Long-Term Obligations			\$3,071,600	(\$178,600)	\$2,893,000	
<b>General Long-Term Debt:</b>						
General Obligation Bonds:						
1987	Recreation - Senior Center	2003	\$240,000	(\$45,000)	\$195,000	
1997	Various Purpose Bonds	2017	2,420,000	(80,000)	2,340,000	
Total General Obligation Bonds			2,660,000	(125,000)	2,535,000	
Ohio Public Works Commission Loans:						
1993	Hanna Avenue Waterline	2013	160,932	(11,495)	149,437	
1993	State Route 48 Waterline	2008	150,217	(13,887)	136,330	
1994	Park Avenue Waterline	2009	100,799	(8,784)	92,015	
1994	East Loveland Avenue	2014	271,964	(13,468)	258,496	
1994	West Booster	2015	216,286	(11,146)	205,140	
1995	Lever Water Tower	2016	567,622	(24,194)	543,428	
1996	Maderia Road Waterline	2016	506,677	(28,149)	478,528	
1999	State Route 48 North	2020	0	274,305		
				(7,540)	266,765	
Total Ohio Public Works Commission Loans			1,974,497	155,642	2,130,139	
Total General Long-Term Debt			4,634,497	30,642	4,665,139	
<b>Other Long-Term Obligations:</b>						
Compensated Absences			428,173	(20,944)	407,229	
Police Pension Accrued Liability			39,764	(471)	39,293	
Total Other Long-Term Obligations			467,937	(21,415)	446,522	
Total General Long-Term Debt and Other Long-Term Obligations			\$5,102,434	\$9,227	\$5,111,661	

**A. Police and Firemen's Pension Fund**

The City's liability for past service costs relating to the Police and Firemen's Pension Fund at December 31, 1999 was \$76,411 in principal and interest payments through the year 2035. Only the principal amount due of \$39,293 is included in the General Long-Term Obligations Account Group.



**NOTE 12 - LONG-TERM OBLIGATIONS (Continued)**

**B. Principal and Interest Requirements**

A summary of the City's future long-term debt funding requirements, including principal and interest payments as of December 31, 1999, follows:

<u>Years</u>	<u>General Obligation Bonds</u>		<u>OPWC Loans</u>		<u>Police Pension Accrued Liability</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2000	\$325,000	\$269,767	\$126,926	\$36,592	\$491	\$1,665
2001	335,000	251,330	129,155	34,364	511	1,644
2002	350,000	231,879	131,452	32,066	533	1,622
2003	355,000	211,742	133,818	29,702	556	1,599
2004	200,000	193,218	139,460	27,262	580	1,575
2005-2009	1,150,000	826,630	677,820	97,592	3,298	7,706
2010-2014	1,445,000	531,378	580,342	41,033	4,066	6,706
2015-2019	1,240,000	134,200	211,166	3,032	5,020	5,755
2020-2035	0	0	0	0	24,238	8,846
Totals	<u>\$5,400,000</u>	<u>\$2,650,144</u>	<u>\$2,130,139</u>	<u>\$301,643</u>	<u>\$39,293</u>	<u>\$37,118</u>

**NOTE 13 - CONTRIBUTED CAPITAL**

A schedule of changes in contributed capital is presented below:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Balance at Beginning of Year	\$2,730,581	\$67,247	\$2,797,828
Additions:			
Contributions from Outside Sources	617,974	0	617,974
Balance at End of Year	<u>\$3,348,555</u>	<u>\$67,247</u>	<u>\$3,415,802</u>

**NOTE 14 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS**

Included in the services provided by the City financed primarily by user charges are water treatment and distribution, wastewater collection and treatment and refuse collection. The key financial information for these enterprise activities is as follows:

	Water	Sanitation	Sewer	Total
Operating Revenues	\$1,275,588	\$786,991	\$1,223,496	\$3,286,075
Depreciation	185,002	272	59,597	244,871
Operating Income ( Loss )	562,023	82,538	(97,446)	547,115
Operating Transfers Out	(369,482)	(50,800)	(13,600)	(433,882)
Net Income (Loss)	13,257	52,059	(66,458)	(1,142)
Current Capital Contributions	617,974	0	0	617,974
Property, Plant and Equipment:				
Additions	1,878,571	1,700	0	1,880,271
Assets	10,652,042	278,194	2,651,756	13,581,992
Net Working Capital	2,016,552	214,055	986,698	3,217,305
Bonds Payable	2,855,000	0	10,000	2,865,000
Landfill Closure Liability	0	28,000	0	28,000
Total Equity	7,688,772	158,814	2,582,871	10,430,457

**NOTE 15 - CONTINGENCIES**

The City is a party to various legal proceedings which seek damages or injunctive relief generally incidental to its operations and pending projects. The City's management is of the opinion that the ultimate disposition of various claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

**NOTE 16 - INSURANCE AND RISK MANAGEMENT**

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. In 1997, the City joined the Ohio Government Risk Management Plan (OGRMP), a public entity risk plan formed under 2744.081 of the Ohio Revised Code that operates as a common risk management and insurance program for 550 member political subdivisions. The City pays an annual premium to OGRMP for its general insurance coverage. The agreement for formation of OGRMP provides that the organization will be self-sustaining through member premiums and will reinsure through commercial insurance and reinsurance companies.

Workers' Compensation claims are covered through the City's participation in the State of Ohio's program. The City pays the State Workers' Compensation System a premium based upon a rate per \$100 of payroll. The rate is determined based on accident history and administrative costs.

The City also pays unemployment claims to the State of Ohio as incurred.

The City continues to carry commercial insurance for other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverages in any of the past three fiscal years.

**NOTE 17 - SOLID WASTE LANDFILL POSTCLOSURE CARE COSTS**

The City owns a former landfill site which predates most modern regulatory and record keeping requirements. The exact date for commencement of waste placement activities is unknown, but waste placement activities ceased in the 1980's. The Ohio Environmental Protection Agency acting in accordance with applicable state and federal laws required the City to complete final closure of the site commencing in 1994. The approximate total cost of closure was \$351,779. State and federal laws require that the City monitor and maintain the site for at least five years after closure. The City has maintained the site for one year. The City estimates that the total postclosure liability associated with monitoring and maintaining the landfill site for the next four years is \$28,000. The estimated costs of postclosure care are subject to changes corresponding to the effects of inflation, revision of laws and other variables. Postclosure care costs are to be paid from the Sanitation and Environment Fund.

**CITY OF LOVELAND, OHIO**

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

**for the years ended December 31, 1998 and 1999**



Foxx & Company  
Certified Public Accountants

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

Council Members  
City of Loveland, Ohio

We have audited the general-purpose financial statements of the City of Loveland, Ohio, as of and for the years ended December 31, 1998 and 1999, and have issued our reports thereon dated June 30, 2000. We conducted our audits in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of Loveland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 30, 2000.

**Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the City of Loveland's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the City of Loveland, Ohio in a separate letter dated June 30, 2000.

This report is intended for the information of management and the Ohio Auditor of State and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Foxx & Company". The signature is written in dark ink and is centered on the page.

Cincinnati, Ohio  
June 30, 2000



STATE OF OHIO  
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

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800-282-0370

Facsimile 614-466-4490

**CITY OF LOVELAND**

**HAMILTON 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  
DECEMBER 19, 2000**